

WORLD BANK GROUP

Papua New Guinea Country Partnership Framework FY2019 – 2023

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized



WORLD BANK GROUP

**Document of
The World Bank Group**

FOR OFFICIAL USE ONLY

Report No. 128471-PG

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

FOR THE PERIOD FY19–FY23

April 18, 2019

**Papua New Guinea and Pacific Islands Country Management Unit
East Asia and Pacific Region**

**The International Finance Corporation
East Asia And Pacific Region
The Multilateral Investment Guarantee Agency**

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank Group authorization.

The date of the last Country Partnership Framework was November 8, 2012, followed by a Performance and Learning Review on July 1, 2016.

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 08, 2018)

Currency Unit: Papua New Guinea Kina (PGK)

US\$1.00 = PGK 3.37

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics	MFD	Maximizing Finance for Development
BCFW	Business Coalition for Women	MIGA	Multilateral Investment Guarantee Agency
BPNG	Bank of Papua New Guinea	MTDP	Medium Term Development Plan
CPF	Country Partnership Framework	NCD	National Capital District
CPS	Country Partnership Strategy	NDC	Nationally Determined Contribution
DDA	District Development Authority	NGO	Nongovernmental Organization
DFAT	Department of Foreign Affairs and Trade (Australia)	PER	Public Expenditure Review
EITI	Extractive Industry Transparency Initiative	PGK	Papua New Guinea Kina
GDP	Gross Domestic Product	PLR	Performance and Learning Review
GoPNG	Government of Papua New Guinea	PNG	Papua New Guinea
GRM	Grievance Redress Mechanism	PPAP	Productive Partnerships in Agriculture Project
HIES	Household Income and Expenditure Survey	PPP	Public-Private Partnership
IBRD	International Bank for Reconstruction and Development	RMRP II	Road Maintenance and Rehabilitation Project, Phase 2
IDA	International Development Association	RSDLGP	Rural Service Delivery and Local Governance Preparation and Pilot
IDIB	Inclusive Development in Post-Conflict Bougainville Project	RSDP	Rural Service Delivery Project
IFAD	International Fund for Agricultural Development	SCD	Systematic Country Diagnostic
IFC	International Finance Corporation	SME	Small and Medium Enterprises
IMF	International Monetary Fund	SWF	Sovereign Wealth Fund
IPA	Investment Promotion Agency	UYEP	Urban Youth Employment Project
KRA	Key Result Area	WaSH	Water, Sanitation, and Hygiene
LNG	Liquefied Natural Gas	WBG	World Bank Group

	World Bank	IFC	MIGA
Vice President:	Victoria Kwakwa	Nena Stoilkovic	Keiko Honda, EVP
Director:	Michel Kerf	Vivek Pathak	Merli Baroudi
Task Team Leader:	Anne Tully & Andrew Cooper	John Vivian	Sandro Diez-Amigo

FY19-23 COUNTRY PARTNERSHIP FRAMEWORK FOR PAPUA NEW GUINEA

Contents

I. INTRODUCTION.....	1
II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA.....	2
II.1 Geographical, Political, and Social Context	2
II.2 Recent Economic Developments and Outlook.....	4
II.3 Poverty and Inequality Profile.....	8
II.4 Drivers of Poverty and Development Challenges.....	10
III. WORLD BANK GROUP PARTNERSHIP STRATEGY	15
A. PNG’s National Development Strategy	15
B. Proposed WBG Country Partnership Framework.....	16
C. Implementing the FY19-23 Country Partnership Framework.....	35
IV. PARTNERSHIPS AND DONOR COORDINATION	40
V. MONITORING AND EVALUATION	41
VI. MANAGING RISKS TO THE CPF PROGRAM	42
Annex 1: Papua New Guinea Country Partnership Framework FY2019–FY2023 Results Framework ..	44
Annex 2: Selected Indicators of Bank Portfolio Performance and Management.....	57
Annex 3: Operations Portfolio (IBRD/IDA and Grants)	58
Annex 4: Statement of IFC Held and Disbursed Portfolio	60
Annex 5: Summary of Stakeholder Consultations	61
Annex 6: Donor Engagement in Papua New Guinea.....	65
Annex 7: PAPUA NEW GUINEA COUNTRY PARTNERSHIP STRATEGY FOR FY2013–2018 COMPLETION AND LEARNING REVIEW	69

Boxes:

Box 1: The District Services Improvement Program (DSIP)	3
Box 2: Conceptual Underpinnings of Development Planning in PNG.....	15
Box 3: Strengthening Resilience at Local Levels	24
Box 4: MFD in the Energy Sector	28
Box 5: Key Principles of the Revised PNG Development Cooperation Policy.....	40

Tables:

Table 1: Key Macroeconomic Indicators.....	7
Table 2: Inequality in Access to Facilities.....	8
Table 3: Human Capital Index Related to Income Level	12
Table 4: MDTPIII Key Results (KRAs)	15
Table 5: CPF Focus Areas and Objectives.....	22

Figures

Figure 1: Composition of the PNG Economy, 2016.....	4
Figure 2: Extreme poverty rate (% of population living below US\$1.90, PPP 2011), country groups	8
Figure 3: Gender Inequality Index, 2017.....	9
Figure 4:SCD Pathways to Support Poverty Reduction and Shared Prosperity	11
Figure 5: Drivers of Fragility, Conflict, and Violence in PNG	14
Figure 6: SCD Pathways, Government Priorities, and CPF Focus Areas.....	21
Figure 7: Universal Health Coverage (UHC) Service Coverage Index.....	26

FY19-23 COUNTRY PARTNERSHIP FRAMEWORK FOR PAPUA NEW GUINEA

I. INTRODUCTION

1. **Papua New Guinea (PNG) is a richly diverse society undergoing intense economic and social transformation.** With more than 800 different languages spoken among a population of over 8 million people, divided into more than 1,000 ethnic clans, PNG is the most heterogeneous country in the world. Since independence from Australia in 1975, PNG has successfully developed many of the institutions of a modern, diverse, and democratic state. The economy has tripled in size since independence, and growth in gross domestic product (GDP) has averaged 3.4 percent per year. In 2018, PNG successfully hosted the Asia Pacific Economic Cooperation (APEC) leaders' summit, the first time an event of this size had been managed in the country. Notwithstanding these gains, the country continues to fall short of its development potential against the backdrop of its enormous natural wealth, strategic geographic location, and young and diverse population. Despite rapid economic growth over recent decades and significant increases in government expenditures, poverty remains persistent and prevalent in some areas and progress on human development indicators has been insufficient to support PNG's ambition of becoming an upper-middle-income country by 2030 and a top-50 country on the United Nations Development Programme's (UNDP) Human Development Index (HDI) rankings by 2050.

2. **The World Bank Group's (WBG's) Country Partnership Framework (CPF) for the Independent State of Papua New Guinea for FY19–FY23 is anchored in the government's Vision 2050, the PNG Development Strategic Plan 2010–2030, and the third Medium-Term Development Plan for 2018–22 (MTDPIII).** The WBG's previous Country Partnership Strategy (CPS) for FY13–FY16 was extended by two years, through the Performance and Learning Review (PLR) of July 2016, in order to align this CPF with the MTDPIII. The CPF reflects the priorities set out in the WBG Systematic Country Diagnostic (SCD), which focused on the most binding constraints and potent opportunities for achieving progress against the twin goals of eliminating extreme poverty and promoting shared prosperity in PNG. The CPF is being developed at a critical time for both the WBG and the Government of PNG (GoPNG). It comes in the context of a significant scaling up in WBG resources directed toward fragile states and recipients of International Development Association (IDA) resources. This scale-up has enabled the WBG to engage with the government in a more substantive manner, building upon a gradual consolidation of the relationship over the last ten years and emergence of a stronger interest on the part of the government in engaging with multilateral organizations. It is a critical time for the GoPNG as it embarks on securing the next round of major resource projects in the country, while pursuing opportunities to ensure that growth is inclusive and enduring.

3. **To support the government in achieving the twin goals, the CPF envisages supporting the GoPNG in pursuing sustainable and inclusive growth and building resilience to shocks across three strategic focus areas:** (i) improving macro and fiscal resilience; (ii) ensuring more effective and inclusive service delivery, particularly in underserved areas; and (iii) enabling private sector development and inclusive growth in non-resource sectors. Addressing governance and institutional challenges will be a cross-cutting theme to the program. Close collaboration between the World Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) will be emphasized, with a particular focus on strengthening the business environment and job creation in PNG.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

II.1 Geographical, Political, and Social Context

4. Papua New Guinea is endowed with a remarkable diversity of geographic and natural resources.

The country occupies the eastern half of the West Pacific island of New Guinea, together with the smaller islands of New Britain, New Ireland, and Bougainville, and another 600 or so smaller and mostly uninhabited islands and atolls. Its links to Southeast Asia and to the wider Asian region are expanding rapidly. Its interior is carved up by mountain ranges, interspersed by fertile valleys and approximately sixteen active volcanoes. Tropical rainforests cover around 75 percent of the country's surface. PNG is among the most biodiverse countries in the world, with over 5 percent of the world's plant and animal species, many of which are endemic to the island of New Guinea. The country's natural resource assets comprise fish, forests, minerals, and hydrocarbons. PNG is a significant global producer of agricultural products such as coffee, cocoa, coconut (copra), and oil palm, and it ranks second in the world for the export of tropical logs. Its maritime exclusive economic zone is the source of over 10 percent of the global tuna harvest. The country also has a wealth of exhaustible natural resources, including hydrocarbons; in 2017, it ranked 10th in the world for export of liquefied natural gas (LNG) and 22nd for export of gold.

5. **PNG's vast and dispersed highland, coastal, and island geography has contributed to creating an unparalleled range of ethnographic diversity.** The rugged and densely forested terrain renders interior travel challenging and has induced communities to remain small in size and disconnected from each other. The result of this considerable dispersion has been the development of a highly segmented society, at the core of which is a system of social organization known as "*wantokism*," a term deriving from the phrase "one language" referring to a group of people who speak the same language. The connections of *wantokism* are complex and adaptive, at times extending beyond kinship and linguistic ties to encompass business colleagues and close political allies. Particularly in urban contexts, it has the flexibility to accommodate new opportunities for affiliation and cooperation within a locality, thereby creating a social safety net for those who are members of a *wantok*.

6. **Reflecting in part its significant ethnographic and geographic diversity, the political culture in PNG is vibrant with intense political competition.** Elections have been carried out as scheduled since independence, and transitions of power have taken place without major disruption, although sometimes accompanied by localized violence. Members of Parliament (MPs) are elected from large fields of candidates by means of a limited preferential voting system, and high turnover among MPs demonstrates a dynamic and robust democratic political climate. Votes of "no confidence" are common in parliament, prompting political parties to create loose coalitions after elections so as to appeal to a broader cross-section of the electorate—although such coalitions have a long history of sudden shifts and renegotiation, and only two governments have managed to complete a full elected term since independence. Politics at any official level can become a site of intense competition within the wider electoral system. Winners rarely represent a majority of voters. Central voices and powerful leaders often dominate funding decisions, and people's opportunities to be heard are often restricted, even at election time. Since 2000, political processes have become more closely linked with policy commitments, which has helped to support political consolidation and stability.¹ Between 2012 and 2017, policy platforms have included support for expanded education access, local infrastructure, and village courts.

7. **The wide dispersion of the population, together with low connectivity, creates immense challenges for the efficient and effective functioning of government services across the country.** The country is governed through three tiers of government (national, provincial, and local) and four levels of administration (national, provincial, district, and local-level government). Several different decentralization and deconcentration initiatives have occurred since independence in 1975, focusing on

¹ Reforms such as the 2003 Organic Law on the Integrity of Political Parties and Candidates, designed to expand constituency bases, have had some effect in making coalitions more durable.

service delivery, assignment of functional responsibilities, design of administrative structures, allocation of resources, accountability, and political representation at subnational levels. Further decision-making power and financial capability have been extended through Provincial and District Service Improvement Programs (PSIPs and DSIPs) to 111 MPs and their associated 22 provincial and 89 district administrations. District Development Authorities (DDAs), chaired by MPs, have been set up to improve service delivery, although these have had mixed results to date (Box 1). Decentralization of service delivery nevertheless remains a priority for the government.

Box 1: The District Services Improvement Program (DSIP)

The DSIP is a significant element in PNG's emerging governance. Other countries have Constituency Development Funds, spent largely at the discretion of the MP, but they tend to be much smaller. The first Electoral Development Funds in PNG in the 1980s were grants of K10,000 per MP. Recent increases in DSIP to K10 million per year per MP have been accompanied by moves to shift the focus of service delivery to districts, and the formation of DDAs to control DSIP funding. DDA performance is highly variable. In some districts, roads and classrooms are being built as seldom before. Acquittal of funds is not widely enforced, while allegations of non-payment of DSIP funds to political opposition members are frequent.

8. These challenges in service delivery have led to significant shortfalls in human capital. PNG has made moderate progress in achieving nationally defined targets over the last ten years: from 1990-2016 under-five mortality decreased from 89 to 54 per 1000 live births, and primary school enrolment increased by 85% (2001 to 2012)², driven by the abolition of tuition fees. However, PNG did not meet the ambitious Millennium Development Goals and challenges remain. A child born in PNG today can expect to be 38 percent as productive when she grows up as she could be if she enjoyed a complete education and full health, as estimated by the World Bank's Human Capital Index (HCI). Half of all children born in PNG are stunted and are therefore at risk of cognitive and physical limitations that can last a lifetime. A child who starts school at age four can expect to complete 8.2 years of schooling by the age of 18, but this would be equivalent to only 4.7 years in terms of actual learning. Only 78 percent of 15-year-olds will survive until age 60. These poor health and education outcomes are evident despite considerable GoPNG investments into education and health over time and are a consequence of inadequate levels of public spending, as well as poor quality of spending overlaid by structural service delivery challenges and exacerbated by outdated and limited data.

9. With one of the fastest-growing populations in the world, at approximately 2-3 percent per year, PNG's investment in human capital is critical to turning the demographic bulge into a demographic dividend. The current high birth rates signal a wide-based demographic pyramid, such that a longer-term "youth bulge" is set to work its way into education and employment over future decades. About 40 percent of PNG's population is under 15 years of age,³ yet entry into the formal labor market is less than 10,000 young people every year.⁴ Unable to find formal work or enter into further study, with poor learning outcomes and limited formal employment opportunities, many school leavers have little choice but to join the informal economy. With economic development focused primarily on urban areas and a dearth of gainful employment opportunities in rural areas, young people are gravitating toward urban centers in pursuit of better jobs and standards of living. Opportunities are limited there, too, and young people constitute a disproportionate share of the urban poor.

² Howes, et al, 2012

³ ILO. 2013. *Youth Employment Policy Brief. Papua New Guinea: Inclusive Growth for Youth.*

file:///C:/Users/Craig/Downloads/Youth%20Employment%20Policy%20Brief_Papua%20New%20Guinea.pdf

⁴ ILO. 2010. *Papua New Guinea Decent Work Country Programme.* Port Moresby.

10. **With the exception of the civil war in Bougainville—which ran for a decade from 1988 and claimed 20,000 lives or a tenth of the island’s population—the country has not experienced large-scale conflict.** Instead, local ethnic relations and dynamics, elections, the distribution of resource rents, gender relations, and rising populations of underemployed youth provide a potential basis for daily violence and conflict that has so far lacked a wider, national or regional-level driver, although national security forces have been deployed in some instances. Although the incidence of tribal conflicts has reduced dramatically since colonial times, they can still erupt, sometimes over seemingly minor issues. The most significant risks arise in the context of contestations over resources (such as revenues, access, or ownership) and over political representation (between winning and losing electoral officials).

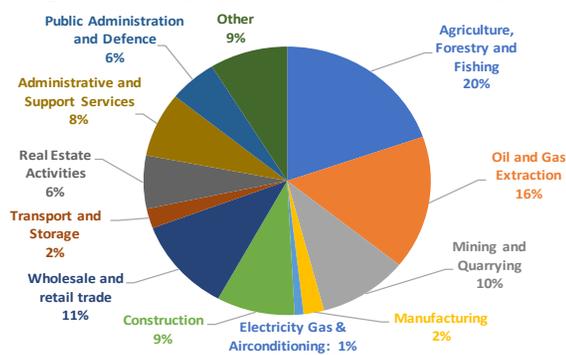
11. **PNG’s development prospects remain highly vulnerable to natural hazards and the impacts of climate change.** The incidence of floods, droughts, earthquakes,⁵ volcanic eruptions, and landslides is high in PNG. These have a significant impact on economic livelihoods and food security and can often exacerbate pre-existing vulnerabilities and act as a trigger of conflict as economic and population pressures grow. This was evident following the February 2018, 7.5 magnitude earthquake in the provinces of Hela and Southern Highlands, which triggered an outbreak of violence, due in part to the delayed recovery effort and poor institutional response to the disaster.⁶ A catastrophe risk assessment carried out in 2011 indicates that PNG is expected to incur, on a long-term average, US\$85 million per year in losses due to earthquakes and tropical cyclones alone. In the next 50 years, PNG has a 50 percent chance of experiencing a loss exceeding US\$700 million and casualties greater than 4,900 people, and a 10 percent chance of experiencing a loss exceeding US\$1.4 billion and casualties greater than 11,500 people.⁷ Natural disasters and climate variability severely affect the agriculture and fisheries sectors, dampening economic growth and affecting vulnerable populations. Rising sea levels have been inundating coastal wetlands and bleaching coral and could eventually result in the displacement of coastal communities, with further consequences for social friction and vulnerability.

12. **PNG’s home-grown ethnic diversity remains a unique resource for economic and social life and, even in a modern PNG, represents a basis for local resilience.** Distinct identities are celebrated in everyday life, local law and justice, and cultural and public events as a crucial strength that makes PNG unique in the wider world. Clan and language group (*wantok*) identities and loyalties still provide a basis for communal action (including some violent action and conflict), even as these are translated into urban contexts and increasingly supplemented by allegiances to church, education, political patrons, province, suburb, and nation.

II.2 Recent Economic Developments and Outlook

13. **PNG is a resource-dependent lower-middle-income country, with a per-capita GDP of US\$2,646 in 2018.** The economy remains dependent on two main sectors: the extractives sector (mining, petroleum, and natural gas), accounting for 26 percent of GDP in 2016, and agriculture, forestry, and fisheries, amounting to 20 percent of GDP (Figure 1). These two sectors also represented 82 and 17 percent of merchandise

Figure 1: Composition of the PNG Economy, 2016



Source: PNG Treasury

⁵ Catastrophe risk modeling for PNG has shown that earthquake losses are expected (on a long-term average annual basis) to be more frequent and severe than losses due to tropical cyclones (by a factor of nearly three). This is related to the fact that earthquakes are not only caused by seismic generators (faults) but also by volcanic activity.

⁶ See <https://www.theguardian.com/world/2018/mar/08/papua-new-guinea-earthquake-anger-grows-among-forgotten-victims>.

⁷ PCRAFI Country Risk Profiles, September 2011.

exports, respectively, in 2016.⁸ PNG's largest LNG project, launched in 2008, achieved its first full year of production in April 2014 (ahead of schedule), spurring GDP growth of 15.4 percent in that year.⁹ Despite accounting for a major share of both output and exports, PNG's resource sector constitutes only about 1 percent of employment given its capital-intensive, enclave-based orientation. The relatively strong, though volatile, growth of the resource sector is not generating sufficient employment opportunities to reduce poverty. Moreover, the relatively lower growth performance of the non-resource sector limits the inclusivity of PNG's growth, given that most people rely upon income-generating opportunities in the informal non-resource sectors.

14. Beyond the resource sector, the private sector in PNG is small and underdeveloped. More than 90 percent of private enterprises are micro-sized and informal, with their main economic activity being subsistence and small agriculture production. In the formal private sector, there are around 50,000 registered firms and, of these, 70 percent have fewer than 10 employees. Due to business development challenges, there are few medium-sized businesses, and even fewer large businesses. Only 8 percent of small and medium enterprises (SMEs) are owned by women. Evidence suggests that SMEs prefer to remain informal due to a lack of information on registration processes, absence of nearby government offices, and high costs of registration. Access to financial services is a key constraint for the private sector. There is limited competition among finance providers, and non-bank financial institutions (NBFIs) lack capacity to provide financing to micro, small, and medium enterprises (MSMEs). PNG's capital markets are underdeveloped, with a small stock exchange dominated by government debt securities issued by the central bank, Bank of PNG (BPNG), offering 30-day to 15-year bills. This lack of depth in the debt-capital market hinders the creation of long-term local currency finance for priority sectors. In addition, several poorly performing state-owned enterprises (SOEs) crowd out private sector investment and frequently deliver services of high cost but poor quality. Progress has been made in introducing competition in telecommunications, aviation, and power, but reforms are still needed to strengthen accountability and clarify mandates. As a result of these barriers to private sector investment, PNG's labor market is characterized by a small formal sector comprising about 10 to 15 percent of the working-age population. The remaining 85 to 90 percent work in the informal sector, primarily in subsistence agriculture.

15. PNG's economy was hit hard by a series of external shocks in recent years due to its dependence on commodities for exports and growth. Like many commodity-exporting countries, PNG faced a sharp decline in oil prices from mid-2014. This was compounded by El Niño-related drought conditions in 2015–16, the end of large investments into the PNG LNG project, and the February 2018 earthquake that disrupted gas and mining production and exports. These shocks limited the boost to growth that had been triggered by the commencement of production at PNG LNG in 2014 to below 3 percent in 2016–17 and even lower in 2018 due to the earthquake. The economic impact of the earthquake was significant, with preliminary estimates indicating that it lowered the GDP growth rate to 0.3 percent in 2018.

16. The PNG authorities are still adjusting macroeconomic policy to the low commodity-price environment and slower growth. So far, the economy's adjustment to shocks has been shouldered primarily by fiscal policy, while a slow monetary and exchange rate adjustment has led to a shortage of foreign exchange and rationing. Between 2014 and 2017, the government reduced total public spending sharply from 25.5 percent of GDP to below 20 percent of GDP, due mainly to cuts in transfers to provincial governments and public investment. This had implications for social sector spending, among others, with per-capita public spending on health declining from US\$47 in 2013 to US\$41 in 2016 (in current US\$). As a result, the budget deficit dropped from 4.6 percent to 2.6 percent of GDP in that period, while the non-resource primary balance improved from -6.6 percent to -1.6 percent of non-resource GDP. To support

⁸ PNG LNG, a large LNG producer, alone accounts for about 10 percent of GDP and over 30 percent of exports. Its construction in 2010-2014 required US\$19 billion in foreign direct investment.

⁹ GDP data are not available from the National Statistics Office after 2014. More recent figures thus rely on World Bank estimates, determined in discussion with the International Monetary Fund (IMF).

fiscal resilience, the government initiated a Medium-Term Fiscal Strategy, a Medium-Term Revenue Strategy, a Medium-Term Debt Management Strategy, and a Public Expenditure and Financial Accountability (PEFA) Road Map. The BPNG is undertaking reforms to strengthen the monetary and exchange rate policy and framework. Measures include managing the liquidity effects of the use of foreign exchange to clear the backlog in foreign exchange orders, working on greater exchange rate flexibility, considering options for strengthening the interest rate transmission mechanism, and enhancing modeling capacity within the BPNG.

Table 1: Key Macroeconomic Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Est.	Est.	Projections				
<i>(In percent, unless otherwise indicated)</i>										
National income and prices*										
Nominal GDP (US\$ billions)	23.1	21.3	19.9	21.6	22.3	24.1	25.6	27.9	32.4	38.3
Nominal GDP per capita (US\$)	2,973	2,693	2,461	2,614	2,646	2,808	2,921	3,130	3,564	4,130
Real GDP growth, of which:	15.4	7.7	2.6	2.8	0.3	5.1	3.1	3.4	3.4	4.3
Extractive sector (percentage-point contribution)	9.4	9.1	2.4	1.4	-2.0	2.7	0.3	0.7	-0.8	-0.3
Non-extractive sector (percentage-point contribution)	6.0	-1.4	0.2	1.4	2.3	2.4	2.8	2.7	4.2	4.6
Consumer price inflation, period average	5.2	6.0	6.7	5.4	4.7	4.8	4.0	4.0	4.5	5.0
GDP deflator	3.1	-3.4	2.9	7.4	6.3	3.3	3.1	2.5	2.0	2.9
Real exchange rate change, US\$/PGK**	-5.6	-5.9	-6.9	1.4	-0.6	2.5	1.8	5.0	12.7	13.2
<i>(In millions of U.S. dollars, unless otherwise indicated)</i>										
External accounts										
Exports, f.o.b., of which:	8,794	8,425	8,202	9,952	10,253	11,315	11,427	11,742	11,502	11,460
Extractive sector	7,349	7,199	6,730	8,335	8,746	9,764	9,769	10,026	9,695	9,570
Imports, c.i.f.	-4,322	-2,687	-2,478	-3,219	-2,764	-3,029	-2,999	-3,356	-3,744	-5,754
Current account	1,796	4,140	4,380	4,892	5,549	5,949	6,281	5,918	4,949	422
(in percent of GDP)	7.8	19.4	22.0	22.7	24.9	24.7	24.6	21.2	15.3	1.1
Overall balance of payments	-520	-440	587	54	386	-26	-37	176	391	626
Gross official reserves (in millions of U.S. dollars)	2,305	1,865	1,681	1,736	2,236	2,095	2,058	2,233	2,624	3,250
(in months of goods and services imports)	6.8	6.0	4.1	4.9	5.6	5.4	4.8	4.7	3.5	6.4
(in months of non-extractive imports)	17.1	19.3	11.9	12.6	13.8	14.0	13.3	14.0	16.0	19.3
<i>(In percent of GDP, unless otherwise indicated)</i>										
Fiscal accounts										
Revenue and grants	20.9	18.6	16.8	16.8	18.3	18.0	17.3	17.0	17.8	18.2
Non-resource tax revenue	16.6	15.2	13.4	13.1	13.1	13.0	13.3	13.2	14.1	14.8
Resource revenue	2.3	1.1	0.6	1.0	2.2	2.3	1.4	1.3	1.4	1.3
Grants and other revenue	2.0	2.4	2.8	2.6	3.0	2.7	2.6	2.5	2.3	2.2
Expenditure and net lending	25.5	22.9	21.8	19.4	20.9	20.3	19.1	18.5	19.0	19.2
Primary expenditure	23.8	21.0	19.7	17.0	18.2	17.8	16.7	16.2	16.6	16.9
Interest payments	1.7	1.8	2.0	2.4	2.6	2.5	2.5	2.4	2.5	2.4
Overall fiscal balance	-4.6	-4.2	-5.0	-2.6	-2.6	-2.3	-1.8	-1.5	-1.2	-1.0
Non-resource primary balance (% non-extractive GDP)	-6.6	-4.4	-4.5	-1.6	-2.8	-2.7	-1.0	-0.6	-0.1	0.1
Net public debt	27.0	30.7	34.6	34.6	35.4	34.9	34.7	33.8	31.8	29.4
Gross government debt	27.0	30.8	36.1	35.7	37.6	36.9	36.3	35.0	32.9	30.5
Gross government savings	0.0	0.1	1.5	1.1	2.2	2.0	1.6	1.2	1.1	1.0
<i>(In percent, unless otherwise indicated)</i>										
Money and credit										
Broad money growth	3.4	8.0	10.9	0.9	16.5	-10.5	2.5	6.6	4.4	8.0
Domestic credit growth	12.8	23.5	15.9	-1.0	10.5	-7.6	3.6	5.2	3.7	7.8
Growth of credit to the private sector	3.5	3.4	7.2	-3.6	7.0	3.1	2.4	5.8	6.9	6.8
Interest rate of 182-day T-bills, period average	5.3	7.1	7.4	7.1	7.0	8.1	7.8	7.8	7.4	7.3
<i>(In percent, unless otherwise indicated)</i>										
Social Indicators										
Population, total (millions)	7.8	7.9	8.1	8.3	8.4	8.6	8.8	8.9	9.1	9.3
Population growth (percent)	2.1	2.1	2.1	2.1	2.0	2.0	2.0	1.9	1.9	1.9
Life expectancy at birth (years)	65.2	65.4	65.5

Sources: Official data; World Bank staff estimates and projections.

Note: * Official GDP data is available only until 2015. **An increase represents appreciation and a decrease is depreciation.

17. The government successfully tapped into the international bond market in October 2018 to address the shortage of foreign exchange and finance its new development vision under the MTDPIII. Following a roadshow to promote its debut sovereign bond, PNG raised a ten-year US\$500 million sovereign bond (which was oversubscribed by seven times).¹⁰ Due to high demand, the bond interest rate was set at 8.375 percent, closer to the lower part of a targeted interest range. The bond will be used partially to lengthen the public debt profile, which became more concentrated around expensive short-term domestic debt. As the debt-to-GDP ratio has stabilized and the composition of the debt portfolio is expected to improve,

¹⁰ The bond was rated a sub-investment grade B by Standard and Poor's and B2 negative by Moody's.

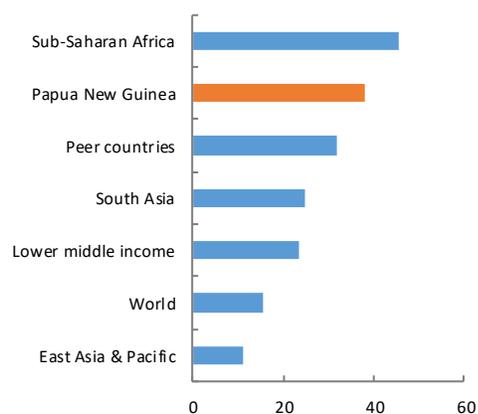
the risk of debt distress remains moderate, as assessed by the recent joint International Monetary Fund (IMF)-World Bank Debt Sustainability Analysis of 2018.

18. PNG’s growth rate is expected to rebound in 2019 and then converge toward its potential growth rate. Economic growth is expected to increase to about 5 percent in 2019, with a return to full production in the resource sector. Non-resource sector activity is expected to continue expanding, with better investor confidence supported by improved access to foreign exchange. Over the longer term, GDP growth is expected to edge toward its potential rate, which is estimated at 3–4 percent per year. Looking further ahead, PNG’s medium-term economic outlook is relatively positive, underpinned by several likely large-scale resource projects, with plans to double LNG production and develop new gold, copper, and silver reserves. The challenge for PNG will be to ensure that its policy, regulatory settings, and capacity are set to maximize returns from these resource projects for the wider benefit of the population.

II.3 Poverty and Inequality Profile

19. From a global perspective as well as that of East Asia and the Pacific (EAP) more specifically, the prevalence of extreme poverty in PNG is high and living conditions vary markedly between rural and urban areas. Data challenges make the analysis of poverty trends difficult. According to the latest survey in 2010, the poverty rate is around 39 percent and is likely to have followed a U-shaped pattern since then: falling in 2010–14 during the time when the PNG LNG project was being constructed, agriculture exports were robust, and infrastructure-related construction was growing; but followed by a likely increase in the poverty rate as energy prices declined sharply and the economy slowed significantly in 2016–17.¹¹ Almost 90 percent of poor people live in rural areas and are likely to be engaged in agricultural activities. This is significant given that 87 percent of the population lives in rural areas. The incidence of poverty outside urban areas is not markedly different across PNG’s regions and provinces; a rural household from the highlands is about as likely to be poor as one from the islands. In contrast, there are wide disparities in living conditions between urban and rural areas. Although urban poverty is rising faster than rural poverty, access to key social services remains higher in cities. For example, more than three-fourths of poor urban households have access to clean water, compared to less than a fifth of poor rural households. Similarly, about half of poor households in urban areas have access to basic sanitation and electricity, compared to only 11 percent and 5 percent, respectively, in rural areas (Table 2). In urban areas, poverty tends to be concentrated in and around urban settlements, where access to public services and facilities is more limited than in other urban settings. Overall income inequality is high in PNG and is estimated to have evolved little since 2010, when the national Gini coefficient stood at 0.42 with little difference between

Figure 2: Extreme poverty rate (% of population living below US\$1.90, PPP 2011), country groups



Source: World Development Indicators and 2010 HIES

Table 2: Inequality in Access to Facilities
Percent of households

	All	Poor	Non-poor	Rural poor
Clean water	28%	24%	30%	19%
Improved sanitation	23%	15%	27%	11%
Electricity	15%	8%	19%	5%
Home phone	1%	0%	1%	0%
Cell phone	46%	34%	52%	29%

Source: 2010 HIES

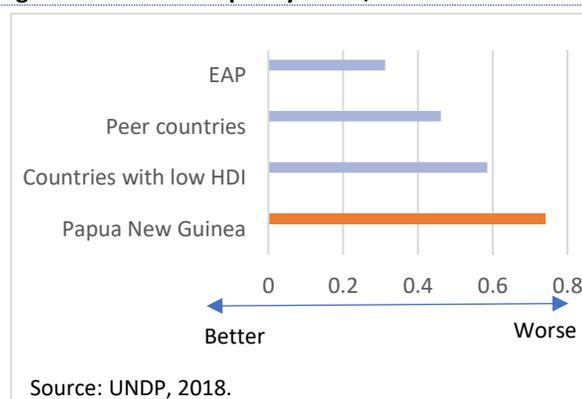
¹¹ Unfortunately, there is insufficient data to draw a reliable inference on the trajectory of poverty since 2010 given the lack of an updated HIES.

urban and rural areas.

20. The poor are especially disadvantaged by the long-lasting negative consequences of low levels of human capital investment, reinforcing a vicious cycle of poor health and education, poor living conditions, and poverty that persists across generations. PNG is characterized by sharp disparities in health and education outcomes across socioeconomic groups. A child born in the poorest quintile is 53 percent more likely to be stunted than a child born in the richest quintile (HIES 2010). The consequences of stunting are multigenerational. Stunted mothers are three times as likely to have stunted children, reinforcing inequities across generations.

21. Women in particular face significant economic and social disadvantages in PNG. In 2017, PNG ranked 159th out of 160 countries on UNDP's 2017 Gender Inequality Index, which reflects gender-based inequalities across the three dimensions of reproductive health, empowerment, and economic activity (Figure 3).¹² PNG's dualistic economy reinforces gender differences and disparities in employment. Female participation in the labor market was 69 percent in 2017, compared to 71 percent for men. Despite this apparent parity, female labor is concentrated mainly in rural (informal and subsistence) work, primarily in the agriculture

Figure 3: Gender Inequality Index, 2017



sector focused on subsistence crops and trade of garden products rather than in large-scale transformation or agro-processing activities.¹³ Work undertaken by the [PNG Business Coalition for Women](http://www.pngbcfw.org/empowering-women-is-smart-business/) suggests that narrowing the gender gap in employment could increase household income by 14 percent, and output per worker could be 7–18 percent higher if female entrepreneurs and workers were utilized to the same extent as men.¹⁴

22. Women face both structural and circumstantial barriers in accessing and controlling finances, which limits their ability to grow businesses and make financial decisions that affect them and their families.¹⁵ This is reflected in the fact that women face significantly lower levels of financial inclusion than men (holding just over one-third of bank accounts).¹⁶ Political representation is low; currently there are no women in parliament, and women are underrepresented in key formal sector contexts, such as in the public service, especially at higher levels of seniority. As of June 2014, 23 percent of senior management roles and 31 percent of middle management roles were held by women, although over recent years there has been an increase in the number of promotions and appointments of women.

23. Gender inequality is worsened by high levels of gender-based violence (GBV) and family and sexual violence (FSV). Estimates from Médecins Sans Frontières suggest that 70 percent of women in PNG have

¹² UNDP. 2018.

¹³ ILO. 2013. It highlights that PNG's National Agriculture Development Plan recognizes the role of women in agriculture as women produce over 80 percent of PNG's food and undertake 60 to 70 percent of work in crop production.

¹⁴ See PNG Business Coalition for Women: <http://www.pngbcfw.org/empowering-women-is-smart-business/>.

¹⁵ Structural barriers are those that arise from traditional and contemporary cultural and other socio-economic characteristics, such as the culture of male entitlement or weak law enforcement. Circumstantial barriers are the factors arising from each woman's personal circumstances, including household dynamics, level of education, economic activities, and access to opportunities (Women's World Banking, 2013. Deepening Financial Inclusion for Women in the Pacific Island. April).

¹⁶ This is true even where financial services are available in urban communities (38 percent of urban women have some form of savings account, versus 68 percent of urban men), and where women hold jobs in the formal sector (where women's access to financial products still lags that of men).

experienced some degree of physical or sexual assault in their lifetime.¹⁷ These risks generate substantive productivity losses due to related absenteeism and time taken to provide support for coworkers affected by GBV,¹⁸ and have a direct impact on women's ability to accumulate human capital and participate in the economy and society. The formal justice system is often difficult to access, especially for women in rural areas. Other obstacles include inadequate policing services; inefficient, sporadic, and underfunded support services (at hospitals and emergency shelters, for example);¹⁹ a shortage of counseling services;²⁰ and limited collection of data on GBV, which impedes policy reform. The GoPNG allocated funding in the 2018 budget to support implementation of key pieces of legislation, including the PNG National Strategy to Prevent and Respond to Gender Based Violence (2-16-2025). In addition, under the 2013 Family Protection Act, around 25 Family and Sexual Violence Units have been set up under the PNG Royal Constabulary and are addressing the immediate needs of FSV survivors, raising awareness of and improving the referral process, and providing training for case workers and law enforcers in partnership with church groups and nongovernmental organizations (NGOs) in rural areas and urban settlements.

II.4 Drivers of Poverty and Development Challenges

24. The WBG Systematic Country Diagnostic for PNG, prepared in consultation with national authorities and other stakeholders to guide development of this CPF, highlights two fundamental challenges to achieving the twin goals of reducing poverty and promoting shared prosperity in PNG. First, the country's economic structure and growth performance have not been conducive to economic and social inclusion. PNG's heavy dependence on capital-intensive, enclave-based natural resource extraction has not generated sufficient jobs to absorb PNG's growing population, while simultaneously opening the economy to macroeconomic volatility and fiscal uncertainty. In this context—and exacerbated by the country's challenging topography and highly dispersed population—shortfalls in the delivery of key public services such as education, health care, and basic infrastructure have had a disproportionate impact on the country's rural and poor residents, further limiting the inclusiveness of PNG's development. Boosting the inclusiveness of growth and establishing a sustainable basis for long-run prosperity will require better management of resource sector revenues; concerted efforts to improve service delivery, particularly in rural areas; and a turnaround in the prospects of PNG's non-resource economy through a revitalization of the private sector and of institutions capable of equitably distributing the country's revenues. PNG's fragile context and weak institutional and governance framework pose a second fundamental development challenge, leaving the country open to a complex array of risks such as commodity price volatility, natural disasters, poorly managed urbanization, and resource-driven conflicts. Building the country's resilience to such risks will be essential to achieve sustainable progress toward the twin goals, through government engagement in risk monitoring and mitigation as well as efforts to strengthen governance and institutions in alignment with the broader interests of all Papua New Guineans.

25. In light of these challenges, the SCD identified four key pathways for promoting inclusive development in PNG (Figure 4). First, by ensuring prudent macroeconomic policy management and effective implementation, the country can work toward overcoming its many macroeconomic vulnerabilities. PNG faces a range of macroeconomic challenges, associated with comparatively slow growth in the non-resource sector, commodity price volatility in the resource sector, procyclical fiscal expenditure combined with limited revenue mobilization, rising debt, a misaligned exchange rate, and a monetary policy framework with limited effectiveness. These challenges stem, in part, from broader economic obstacles, including a difficult economic geography, high dependence on natural resource

¹⁷ Médecins Sans Frontières. 2016. "Return to Abuser: Gaps in Services and a Failure to Protect Survivors of Family and Sexual Violence in PNG."

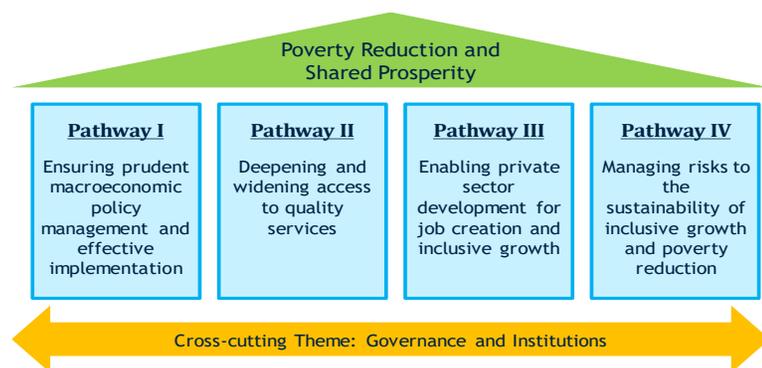
¹⁸ Darko, E., W. Smith and D. Walker. 2015. *Gender Violence in Papua New Guinea—the cost to business*, The Overseas Development Institute.

¹⁹ Baines, L. 2012. *Gender-Based Violence in Papua New Guinea: Trends and Challenges*. Burgmann Journal, Issue 1, p.21-26.

²⁰ Australia's Department of Foreign Affairs and Trade, 2017. *Review of Counselling Services in the Pacific Final Report*. Pacific Women Shaping Pacific Development. March.

extraction, vulnerability to natural disasters, limited data availability, and low public sector capacity. At the same time, deficiencies in macroeconomic policy making have played a role. PNG could benefit from improved coordination, greater attention to mitigating key risks, and a more forward-looking approach that maintains greater consistency with longer-term economic objectives. In addition, while the resource sector has delivered significant benefits to the country, these have not reached many in PNG despite several decades of major extraction activities. The most pressing structural weaknesses in macroeconomic policy that warrant attention are: (i) limited macroeconomic management of resource cycle flows; (ii) low revenue mobilization; (iii) rising debt and debt servicing costs; and (iv) limited effectiveness of the monetary policy framework and an imbalance in the foreign exchange market.

Figure 4:SCD Pathways to Support Poverty Reduction and Shared Prosperity



26. **Second, by deepening and widening access to good-quality services, PNG can offer its citizens more avenues to take advantage of economic opportunities while strengthening their resilience in the face of shocks.** Service delivery is fundamental to economic and human development, and better access is associated with lower poverty in PNG. The manner in which services are delivered and how citizens perceive inclusion, voice, and transparency together represent an important link to state legitimacy.²¹ Progress has been made in delivering a range of services despite enormous challenges: the country has working health facilities (with plans by Government to build a district hospital in each of the 89 districts), schools, and law enforcement bodies; there is a major road network, and Internet and electricity are available to most in urban centers. Key policies and plans have been developed to guide government investments in human development, including a National Nutrition Policy, and National Health and Education Plans, while the abolition of school fees in 2012 improved access considerably. Nevertheless, shortfalls in the delivery of key public services—particularly in communities that are geographically remote—have detracted from the country’s progress in human development and inclusive growth and risk undermining state-citizen relations. In 2017, PNG ranked 153rd out of 189 countries on the UNDP’s Human Development Index, with a score of 0.544. Despite progress in some indicators, PNG’s ranking of 0.38 on the WBG’s HCI²² is below the EAP regional average (0.62) with large variations in human capital outcomes across the country (Table 3). In response to identifying tractable constraints that are common across most service delivery sectors, the SCD recommended an overarching approach, including: (i) increasing the quantity and quality of spending; (ii) mitigating capacity constraints; (iii) improving planning, monitoring, and evaluation; and (iv) improving the functioning of the decentralized institutional service delivery mechanism in order to more effectively access remote or vulnerable areas.

²¹ World Bank. 2018. Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict. Washington, DC: World Bank.

²² The HCI measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health.

Table 3: Human Capital Index Related to Income Level

Indicator	Papua New Guinea	Low Income	Lower Middle Income	Upper Middle Income	High Income
	Male + Female	Male + Female	Male + Female	Male + Female	Male + Female
HCI Component 1: Survival					
Probability of Survival to Age 5	0.946	0.925	0.960	0.980	0.994
HCI Component 2: School					
Expected Years of School	8.2	7.8	10.2	11.8	13.1
Harmonized Test Scores	358	363	392	430	508
HCI Component 3: Health					
Survival Rate from Age 15-60	0.778	0.744	0.810	0.855	0.920
Fraction of Children Under 5 Not Stunted	0.505	0.658	0.735	0.867	0.923
Human Capital Index (HCI)	0.38	0.38	0.48	0.58	0.74

27. **Third, by enabling private sector development for job creation and inclusive growth, PNG can begin to rebalance its economy toward a more sustainable growth path.** Doing business in PNG is particularly challenging, as evidenced by the country’s ranking of 108th among 190 countries in the WBG’s *Doing Business 2019* report. Firm surveys identify the following major constraints to business, investment, and growth: (i) infrastructure and related services; (ii) access to finance; (iii) access to land; (iv) law and order; (v) corruption; (vi) skills shortages; and (vii) political uncertainty and instability of rules. Beyond these traditional business concerns, foreign exchange availability has in recent times become a major constraint on business activity. At the same time, considerable potential exists in PNG for inclusive, private sector-led growth in non-resource sectors such as agriculture, fisheries, and tourism. Given that the vast majority of Papua New Guineans engage in traditional subsistence and semi-subsistence agriculture activities in rural areas, this sector can play a significant role in providing broad-based income and employment opportunities across the country, including among women and young people. However, without access to the land, credit, skilled workers, and policy predictability they need to operate and expand, PNG’s businesses will not be able to harness this potential.

28. **Finally, by improving state capacity to manage risks to the sustainability of inclusive growth and poverty reduction, PNG can enhance the sustainability of its development trajectory.** PNG’s ability to deliver opportunity, stability, and services to its diverse, dispersed population—and to guarantee prosperity for future generations—faces threats from several sources, and the government’s ability to manage these threats is hampered by constraints in institutional capacity. PNG’s risks stem from a combination of deep-rooted structural causes and short-term triggers (Figure 5).²³ The country’s resource-dominated economy has weakened its institutions, undermining accountability and blunting incentives to deliver broadly inclusive development. Rapid modernization and urbanization are placing stress on traditional institutions and, combined with a burgeoning and underemployed youth population, are creating conditions for social unrest as young people find themselves unable to take full advantage of the opportunities offered by a growing economy. The economic exclusion of women and endemic GBV threaten the long-term prospects for half of the country’s population, significantly reducing the potential economic contribution of its citizen base. The country’s diverse and fragmented political landscape has created challenges for representation, paving the way for a sense of political disenfranchisement in some

²³ A Risk and Resilience Assessment (RRA) was prepared to the fragility and conflict risks in PNG, to determine the capacity of state and nonstate institutions to manage these risks, and to provide operationally relevant recommendations on how the government of PNG and the WBG can work together to address these risks.

areas and heightened fragility. While there are important forces in PNG's economy, society, politics, and institutions that work to address these challenges, much remains to be done to build resilience and manage potential risks.

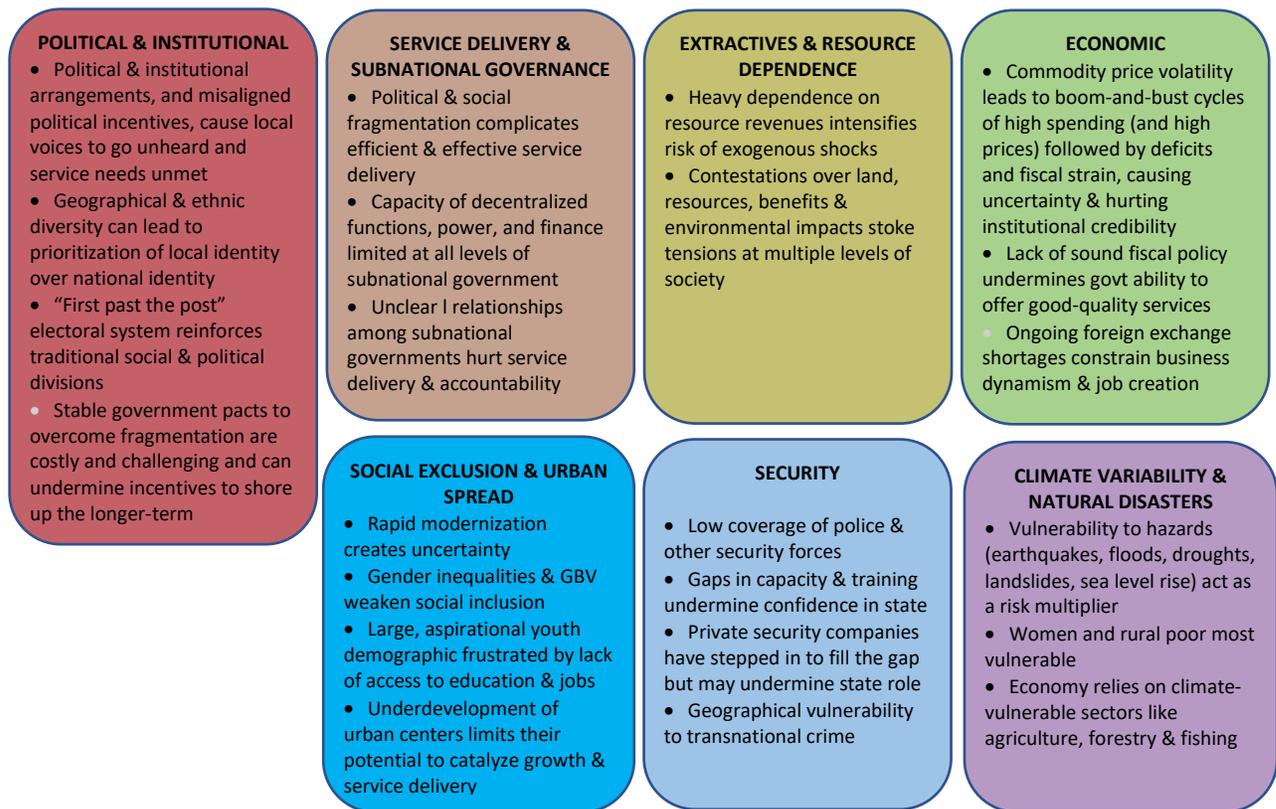
29. The SCD highlights the importance of strengthening institutional structures and governance to support sustainable development progress and bolster economic and social resilience. Ensuring—through transparency, accountability, and inclusiveness—that institutions are capable and effective is important for long-term development and key to a country's ability to manage risks and steer a path toward peace and stability. Yet PNG falls in the bottom third of countries on the Worldwide Governance Indicators (WGI) in 2017, with the exception of voice and accountability, on which it ranks in the 51st percentile. In the control of corruption, PNG falls in the 17th percentile on the WGI and ranks 135th of 180 countries on Transparency International's Corruption Perceptions Index 2017. Over 30 percent of large firms and 17 percent of small firms identified corruption as the biggest obstacle to their business,²⁴ and 37 percent of formal sector SMEs cited it as a major obstacle.²⁵ Assessments typically point to the presence of, *inter alia*, weak and fractious political party structures, shallow policy commitments, shortcomings in public financial management (PFM), misaligned personal and public incentives, widespread rent seeking, and weaknesses in the governance structures of PNG's resource sector. These factors impede the government's capacity for effective economic management, policy making, and service delivery, while holding back private sector development through higher costs, elevated uncertainty, and the discouragement of investment.

30. While governance challenges are evident, pockets of success across the country are building resilience and creating momentum for improved service delivery and institutional effectiveness. These include, for example, local hospitals, clinics, schools, and local government structures that are functioning despite the challenges, as well as capable leadership in government departments, the private sector, and civil society. The rollout of the Integrated Financial Management System (IFMS) at the subnational level will raise prospects for more visible and accountable public finances, including facilitating the flow of funds to schools and health facilities. The capacity of civil society to advocate with government and deliver services is increasing, alongside the availability and reach of social media as a potential vehicle for transparency and accountability. While more can be done to strengthen institutions and governance in the resource sector, PNG's participation in the Extractive Industries Transparency Initiative (EITI), which seeks to improve sector transparency and accountability, is a step in the right direction. These factors could see PNG emerge with more effective governance over time.

²⁴ World Bank. 2015. *Enterprise Surveys: Papua New Guinea 2015 Country Profile*. Available at: <https://openknowledge.worldbank.org/handle/10986/25914>

²⁵ Tebbutt Research. 2014. *Report for SME baseline survey for the small-medium enterprise access to finance project*. Mimeo.

Figure 5: Drivers of Fragility, Conflict, and Violence in PNG



SOURCES OF RESILIENCE

- Strong family and kin networks act as a social and economic safety net.
- The village as a subsistence base, and reliance on subsistence farming, offer a buffer for much of the population.
- Emerging women’s movements and voice are enhancing women’s role as a bedrock of social cohesion.
- Young people in PNG have a strong appetite for education and self-improvement.
- Informal structures and local institutions, such as churches and schools.

III. WORLD BANK GROUP PARTNERSHIP STRATEGY

A. PNG's National Development Strategy

31. PNG's Vision 2050, released by the government in 2011, outlines long-term objectives in human capital development, gender, youth, wealth creation, environmental management, and strategic planning. Echoing the objectives of Vision 2050, the Development Strategic Plan 2010–2030 provides a link between long-term national goals and implementation strategies through the introduction of four five-year Medium-Term Development Plans (MTDPs).²⁶ In addition to setting out high-level policy directions, the Development Strategic Plan reflected the importance of forming a government partnership with churches for service delivery. Gender equality is also identified as a priority area under PNG's *National Policy for Women and Gender Equality 2011-15*.²⁷ PNG's development plans place a considerable emphasis on environmental management and climate change adaptation and mitigation. PNG announced its contribution to the global climate change mitigation effort in September 2015. PNG's Intended Nationally Determined Contribution (INDC) lays out potential areas for mitigation in the energy, transport, and forestry sectors with a target to achieve a carbon-free electricity sector by 2030.

Box 2: Conceptual Underpinnings of Development Planning in PNG

Two documents provide the conceptual foundation for PNG's development planning framework.

- The National Constitution and the Five National Goals and Directive Principles: integral human development; equality and participation; national sovereignty and self-reliance; natural resources and environment; and recognition of culturally relevant approaches to development.
- The National Strategy for Responsible, Sustainable Development for PNG (StaRS) aims to make PNG a middle-income country by 2030 and one of the top 50 countries on the Human Development Index by 2050.

32. Under the first government led by Prime Minister Peter O'Neill (2012–17), the second Medium-Term Development Plan (MTDP II) introduced the National Service Delivery Framework. This framework laid out the minimum basic core services required at all levels of government, together with the financing arrangements for these services (national, provincial, district, local-level government, and ward-level administrations). This is seen as a deliberative step toward the decentralization of service delivery in PNG. Upon re-election in 2017, the second O'Neill-Abel government adopted the Alotau Accord II, a policy agenda focusing on economic and fiscal resilience. The Accord prioritizes economic growth, infrastructure development, law and order, education, and health and recognizes the importance of increasing economic participation, empowerment, and private sector development to support economic activities.

33. The Medium-Term Development Plan III (2018–22), "Securing Our Future through Inclusive Sustainable Economic Growth," focuses on building PNG's economic foundations through inclusive growth. While human and social development outcomes are included in the overall framework, the MTDP III presents a pivot in PNG's development planning toward faster economic growth led by the private sector and increasing government revenue; improving the business and investment landscape; and diversifying the economy.

Table 4: MTDP III Key Results (KRAs)

1. Increased Revenue and Wealth Creation
2. Quality Infrastructure and Utilities
3. Sustainable Social Development
4. Improved Law and Justice and National Security
5. Improved Service Delivery
6. Improved Governance
7. Responsible Sustainable Development
8. Sustainable Population

²⁶ The first MTDP covered 2010-15, followed by MTDP II (2016-17).

²⁷ Government of Papua New Guinea, 2011. Dept. of Community Development: National Policy for Women and Gender Equality 2011-2015.

The MTDP III places an emphasis on increasing the number of SMEs to boost the participation of Papua New Guineans in the formal economy, land reform aimed at spurring investment, and improved decentralized service delivery (including the building of district hospitals). The MTDP III is underpinned by eight key result areas (KRAs) (Table 4) which are directly aligned to the UN Sustainable Development Goals and GoPNG's commitment to taking action against these.

B. Proposed WBG Country Partnership Framework

III.B.1 Lessons from Completion and Learning Report and Stakeholder Consultations

34. Implementation of the previous CPS holds lessons for the FY2019–23 CPF. In consultation with government counterparts and Project Management Unit (PMU) staff, the WBG identified six primary lessons that are explored in the Completion and Learning Review (CLR) for the previous CPS (attached).

- **Strong portfolio performance requires sustained, long-term engagement by project teams, implementing agencies, and central agencies.** Lessons from projects under implementation across the previous CPS highlighted the importance of strong government and stakeholder ownership; the need for increased government engagement in project governance and oversight; and the importance of early recruitment of qualified PMU staff complemented by hands-on implementation support by task teams. Greater use of Project Preparation Advances and Grants as well as retroactive financing could help with timely recruitment of project staff and implementation readiness. Given limitations faced by the government related to technical capacity, connectivity, and the supervision and reporting requirements of development partners, the World Bank will need to provide enhanced implementation support and capacity building for counterparts, particularly in project management, procurement, financial management, and safeguards. Engaging in multiple new sectors at the same time can stretch the government's and Bank's capacity to provide implementation support.
- **Greater interagency coordination would help in addressing bottlenecks in procurement, financial management, and safeguards.** Delays in government procurement and financial management processes represent the greatest systemic challenges to implementation of the PNG portfolio. Regular follow-up and engagement with implementing agencies by WBG teams has seen some improvements in clearance times at the Central Supply and Tenders Board and State Solicitor's Office. During the CPS, the Bank utilized procurement Hands-on Expanded Implementation Support (HEIS) for the first time in PNG under the Emergency Tuberculosis Project. Capacity constraints meant that the benefits of HEIS were not fully realized. The government's intent to restart regular project steering committee meetings under the leadership of the Department of National Planning and Department of Treasury is important.
- **Capacity for implementation and monitoring of safeguards compliance needs to be enhanced.** This includes ensuring qualified safeguards staff are recruited into implementing agencies and that task teams provide clear technical guidance and support to counterparts on safeguards. Experience from the second Road Maintenance and Rehabilitation Project (RMRPII) emphasized the need to ensure that appropriate environmental and social assessments are completed before works commence, including social and environmental mapping activities. Regular monitoring of safeguard plans by the government and PMUs is critical. Upstream support and capacity building by the Bank will be important to ensuring effective implementation of the new Environment and Social Safeguards Framework.
- **Flexibility to respond to emerging opportunities and for adaptive learning in project design will remain important given PNG's institutional and social fragility.** Project designs should maintain flexibility for adaptive learning and adjustments during implementation and reflect the difficult delivery environment by avoiding overly complex delivery models. The WBG will need to continue

a close dialogue with the government, development partners, and the private sector on political economy considerations affecting the portfolio, particularly in challenging areas (for example, in the Highlands region and Bougainville). In particular, the WBG needs to be cognizant of three particular risks: (i) given the potential for community-level tensions, a common feature of the landscape for many large investments in PNG, GRMs need to be monitored regularly to ensure that relevant parties are aware of potential issues during project implementation; (ii) staff need to remain sensitive to contextual factors around identifying, securing, and compensating landowners' communal property rights in a range of contexts, given that formal state capability in this area is still being developed; and (iii) understanding and accommodating the shifting subnational institutional political economy context is important if government counterparts and public capital and recurrent budgets are to better support project implementation.

- **Strategic partnerships brought opportunities to expand analytical work, increase project impacts, and test new ideas, and these should continue.** Cooperation with Australia's Department of Foreign Affairs and Trade (DFAT) and other partners deepened during the CPS period. This helped bring about opportunities for the WBG to expand its assistance to the private sector; produce analytical work in information and communications technology, energy, agriculture, logistics, and rural service delivery; and access grants to increase the size of project investments and offer a lower cost of borrowing to the government. Beyond this, partnership with the private sector across several projects has demonstrated that positive development outcomes and commercial benefits for the private sector can go hand in hand. The WBG will explore these opportunities to ensure maximum impact in key sectors such as energy, transport, and health.
- **Even strong private sector sponsors require significant support to ensure that they can adequately respond to reporting and environmental and social safeguards expectations associated with IFC investments.** Tools such as IFC's Creating Markets Advisory Window, together with strong donor support, are important resources to help support clients in building the capacity and skills they need to work with organizations like IFC.

35. **Issues affecting portfolio quality are being addressed.** The PNG portfolio had four problem projects at the end of the CPS period, and another was downgraded shortly afterward. In January 2019, there were seven problem projects in the portfolio. Delays in government procurement and financial management processes are being closely followed up by central agencies and the World Bank. Safeguards concerns arose in the context of RMRPII, but they have been resolved progressively through intensive engagement by the Bank and government.

36. **Design of the CPF has taken into account feedback provided during broad stakeholder consultations conducted in October 2018 and via social media (Annex 5).** Participants suggested that the WBG has a strong role to play in coordinating policy dialogue, supporting country systems, and bringing knowledge and technical capacity to bear on challenging issues. Government stakeholders encouraged the WBG to maintain its long-term engagement in sectors such as transport and agriculture, and to help strengthen data capability across government. The government appreciated the efforts the WBG had made to align its program to the MTDPIII. Overall, there was agreement that a strong focus on economic sectors—as reflected in the MTDPIII (agriculture, SMEs, tourism)—is appropriate for the WBG. It was suggested that the WBG could also make an effective contribution by increasing its engagement in human development sectors, in particular in education. Although the WBG should be careful not to stretch itself across too many sectors and geographic areas, there is a demand for development partners to engage in areas outside their traditional comfort zones, including in “vulnerable areas.” Online feedback on the WBG's proposed strategy placed a strong emphasis on engagement with rural communities. The WBG should continue to look for ways to speed up project preparation while enhancing the readiness of projects.

III.B.2 Overview of the WBG’s Strategy

37. **The CPF covers a five-year period from FY19 to FY23, which is broadly aligned with the next electoral cycle in PNG and with the MTDP III.** The CPF takes as its starting point the government’s development priorities, as expressed in the MTDP III, and the pathways to development that were drawn out of the SCD (Figure 4). These place an emphasis on supporting private sector-led and job-rich economic diversification, especially in rural areas, as well as improved decentralized service delivery and social inclusion. The CPF has employed three *selectivity filters* to narrow the scope of WBG support to a concrete, realistic program of interventions to underpin PNG’s own development priorities. First, in an effort to maximize the effectiveness of WBG support, the CPF focuses on areas that correspond broadly to the WBG’s comparative advantage and historical engagement in PNG. Second, the CPF program will be complement or supplement support provided by other development partners. Third, the CPF will focus on interventions that address the key drivers of risk and resilience in PNG (Figure 6) to which the WBG has capacity and experience to respond. The RRA emphasizes the need to address economic volatility, extractive sector governance, limited youth opportunities, weak subnational governance, and multidimensional risks in our engagement. On this basis, the proposed CPF aims to help GoPNG foster sustainable and inclusive growth and manage social and economic shocks through three interconnected focus areas. These include: (i) improving macro and fiscal resilience; (2) ensuring more effective and inclusive service delivery, particularly in underserved areas; and (3) enabling private sector development and inclusive growth in the non-resource sector. Given the fundamental importance of strengthening governance and institutional capacity to improve development outcomes, this will be viewed as a cross-cutting objective guiding the design of the CPF program as a whole.

Figure 6: Risk and Resilience Assessment Recommendations



38. **The CPF is closely aligned with the WBG’s core institutional priorities.** The objectives of the five IDA themes feature prominently:

- *Jobs and economic transformation.* Several of the objectives in the CPF support job creation and economic transformation through efforts to foster economic diversification, support private sector development (including of SMEs), improving agricultural competitiveness, and encouraging the participation of youth and women in the labor market. For example, greater integration of transport and agriculture activities around enhanced market access and improved value chains is a key feature of the program. In addition, the focus on improving key services, including those that create a healthier and better-educated population, are expected to have long-run impacts on economic transformation.

- *Gender.* The WBG will aim to achieve the PNG and Pacific department target of ensuring that 60 percent of operations are gender-tagged. A Country Gender Action Plan (CGAP) for FY19–23²⁸ has identified three areas where the WBG can elevate its impact on gender issues: promoting women’s economic participation, increasing women’s access to endowments, and reducing GBV.²⁹ These areas support the GoPNG’s National Policy for Women and Gender Equality 2011–2015. The WBG will ensure that opportunities to address women’s economic participation are identified in agriculture, SMEs, tourism, infrastructure and urban employment, while opportunities to address gaps in access to health, water, and education services will be identified. Projects will be screened against the GBV Risk Assessment Framework and will build in awareness-raising and prevention activities, including sensitizing implementing agencies to the importance of addressing GBV; building GBV capacity within implementing agencies and PMUs; mapping available services in project areas to ensure there is an effective referral response; and, integrating GBV requirements into all project documentation, including bid documents and codes of conduct in contract agreements.
- *Climate change and disaster risk management.* Given PNG’s vulnerability to climate and disaster-related events, building resilience will be key to engagements in agriculture, transport, and energy. The WBG will work within its operations and with development partners to support government and community efforts to build preparedness and responsiveness to disasters. Where appropriate, the WBG will incorporate contingent emergency response components in investment projects to provide a means to respond rapidly to disasters. Furthermore, the government has expressed an interest in Catastrophe Deferred Drawdown Option (CAT-DDOs) as a way to obtain fast-disbursing support in case of a disaster. The mainstreaming of climate resilience in the Bank’s portfolio will contribute to addressing a number of the adaptation priorities highlighted in PNG’s NDCs. The WBG will assist PNG in realizing the primary climate mitigation goal in its NDC—increasing the share of renewable energy in electricity generation.
- *Governance.* The critical issue of governance underpins the entire CPF program with the intent to improve the effectiveness of government and public service delivery, including by strengthening transparency and accountability across all focus areas. The WBG will support key governance reforms, including in resource mobilization, expenditure and PFM, governance of key sectors and SOEs, and working with subnational governments. Citizen engagement and GRMs will be mainstreamed in 100 percent of operations.
- *Stability and security.* The CPF has integrated the findings of the Risk and Resilience Assessment (Figure 6) into its engagement strategy. Building social, economic, and environmental resilience and strengthening the capacity of government and citizens to effectively manage risks is an underpinning goal of the CPF which will contribute to the long-term objective of promoting stability and security.

39. The WBG will apply the cascade approach to crowd in private investment and maximize finance for development (MFD). The scope for applying the cascade approach in PNG is limited by low private sector capacity and capital, and by the policy and regulatory environment that constrains private investment in some sectors.³⁰ Nevertheless, there are areas where the WBG can leverage private sector financing,

²⁸ The CPF is informed by a country gender diagnostic included in the CGAP for FY19–23. This report updates key data from the more comprehensive PNG Country Gender Assessment 2011–12, led by the World Bank in collaboration with the UN, Australia Aid, GoPNG, and Asian Development Bank. Available at: <http://documents.worldbank.org/curated/en/2012/12/17431121/papua-new-guinea-country-gender-assessment-period-2011-2012>.

²⁹ Given the importance of this issue, the WBG team has commissioned work to: (i) identify interventions that are or have been carried out in PNG to effectively address GBV, which may benefit from scaling up; and (ii) identify new activities for WBG’s lending and analytical portfolio for PNG for FY19–23. See Fulu, E. 2018. Gender-Based Violence in PNG. World Bank.

³⁰ In assessing potential lending projects, the World Bank, in collaboration with IFC, will first assess if a private sector solution is available. If not, the WBG will support policy and regulatory reforms to facilitate private sector solutions where feasible. If this

management capabilities, and innovations to maximize the impact of public resources including in sectors such as tourism, agribusiness, and energy, where the World Bank is supporting policy or capacity reforms and IFC is undertaking complementary advisory services and/or investment activities. MIGA is working with the World Bank and IFC on potential MFD opportunities.

40. Given the critical role of human capital in accelerating its development aspirations, the GoPNG has agreed to be an early adopter under the WBG’s Human Capital Project. This project represents a new effort to understand the link between investing in people and economic growth. It provides an opportunity for dialogue between the government and partners on strategies to improve indicators of human capital. The CPF program will support these efforts to enhance human capital through cross sectoral engagements including in education, health, agriculture, and nutrition interventions. In this regard, the WBG proposes to work with the government on an event to help operationalize the government’s Human Capital Acceleration Plan, which takes a whole-of-government approach to strengthening human capital investments.

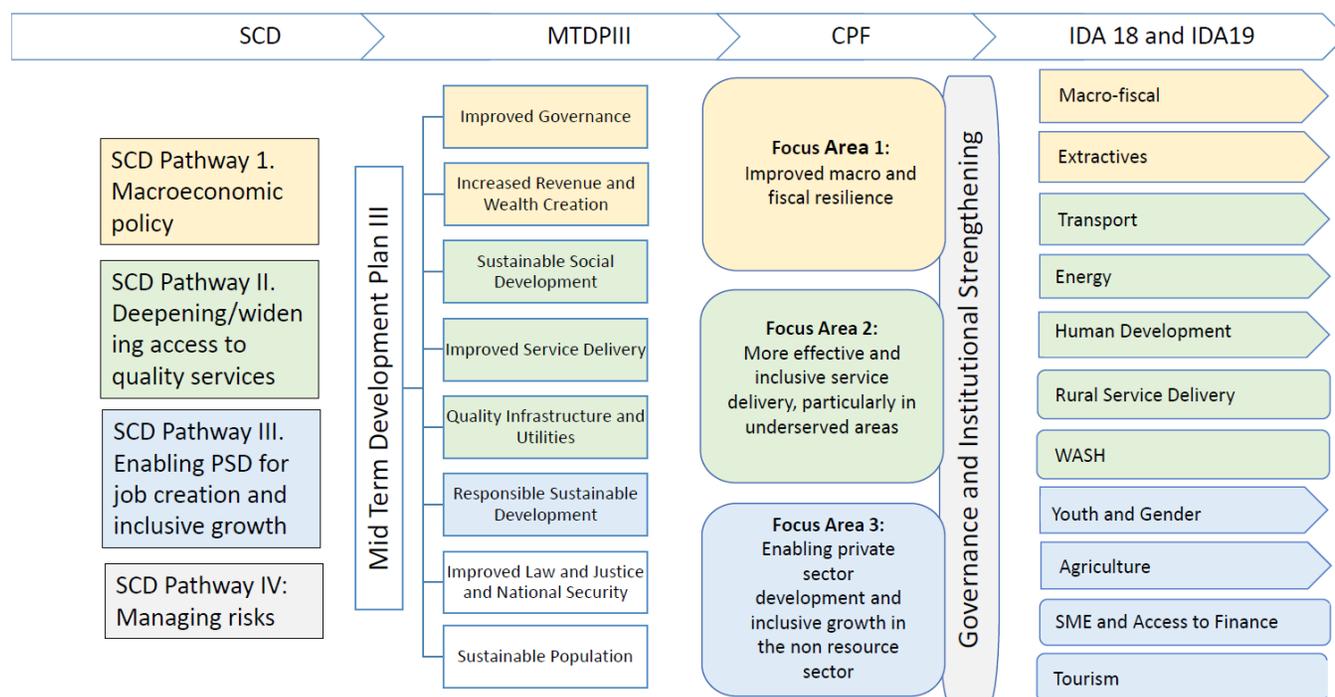
41. Where feasible, digital technology will be utilized to support program performance and to increase transparency and accountability. The scope for maximizing the potential of digital technology is constrained by the lack of affordable and reliable Internet for households, businesses, and government in PNG. Australia is working with the GoPNG on improving access by upgrading submarine cable technology, although this will need to be complemented by institutional reforms to maximize the benefits of reliable and affordable backbone infrastructure. The ongoing WBG program will utilize digital technology as much as possible, including through the use of cloud-based project websites that can be used to store key information and documents, integrate a range of safeguards and contract management tools, and facilitate online submission and data collection for grievances and complaints. More generally, PNG will be engaged with the WBG on analytical work on the next stage of digital opportunities across the Pacific.

III.B.3 Objectives Supported by the WBG Program

42. The CPF builds upon an established portfolio and an advanced IDA18 pipeline, as requested by GoPNG. In this context, there is limited room for portfolio adjustments in the short term, although flexibility will be retained to adjust the portfolio in line with CPF progress and government priorities into the IDA19 period, particularly at the point of the PLR. The CPF will build on the “core” engagement areas (identified during the previous CPS) in agriculture, road transport, youth employment, macro-fiscal policy, and extractives governance, while continuing to test approaches in new areas such as water and sanitation, tourism, health, and community-driven development.

proves insufficient, the WBG will implement risk mitigation instruments to help attract the private sector. Finally, if this is still insufficient, the WBG will then pursue public sector funding.

Figure 6: SCD Pathways, Government Priorities, and CPF Focus Areas



43. **At the same time, some strategic shifts are envisaged over the CPF period.** First, this CPF envisages a substantively scaled-up policy dialogue on macroeconomic management, private sector development, and human capital. This scaled-up policy dialogue is reflected in the government’s re-engagement with the WBG on a development policy operation (DPO) series, after a hiatus of nearly 20 years, and in a deepening of engagement in the health sector combined with PNG’s status as an early adopter of the Human Capital Project. Second, while the program will retain its focus on core activities, as outlined above, there will be a gradual shift over time toward activities that support private sector-led economic growth and human capital improvements. Third, the CPF will explore geographic convergence in some areas to maximize impact, limit fragmentation, and avoid straining local capacity. Activities focusing, in particular, on transport; agriculture; water, sanitation, and hygiene (WaSH); and health will aim to deliver a coordinated program of support to tackle cross-sectoral priorities such as improving nutrition in underserved communities.

44. **Strengthening institutional foundations and governance will be a cross cutting theme.** This approach will aim to: (i) support sound management of public resources for improved services; (ii) strengthen performance at different levels of the public service, including by addressing institutional and governance issues as part of sectoral engagements; (iii) build transparency, accountability, and citizen feedback into decision making; and (iv) strengthen corporate governance of SOEs.

Table 5: CPF Focus Areas and Objectives

PNG Country Partnership Framework Fostering Sustainable and Inclusive Growth		
Focus Area 1: Improving Macro and Fiscal Resilience	Focus Area 2: Ensuring More Effective and Inclusive Service Delivery, Particularly in Underserved Areas	Focus Area 3: Enabling Private Sector Development and Inclusive Growth in Non-Resource Sectors
<p>Objective 1.1: Strengthen fiscal management</p> <p>Objective 1.2: Improve governance in the resource sector</p>	<p>Objective 2.1: Improve management and maintenance of PNG’s road infrastructure</p> <p>Objective 2.2: Improve access to key human development services</p> <p>Objective 2.3: Enhanced access to improved water sources</p> <p>Objective 2.4: Improve planning and operational capacity for achieving the government’s electrification targets</p> <p>Objective 2.5: Improve community access to basic infrastructure and services, particularly in vulnerable areas</p>	<p>Objective 3.1: Improve MSME competitiveness and access to financial services</p> <p>Objective 3.2: Improve competitiveness and productivity of agriculture and tourism</p> <p>Objective 3.3: Deepen economic participation of women and youth</p>
Addressing governance and institutional challenges		

Focus Area 1: Improving Macro and Fiscal Resilience

45. **Improving macroeconomic policy and encouraging effective implementation will go a long way toward ensuring that the economy is appropriately insulated from commodity-price-induced volatility, that public services are adequately funded, that the private sector and international capital can count on stability and growth, and, more generally, that a broad range of risks (regarding debt, balance of payments, and inflation, for example) are well under control.** Ensuring that macroeconomic settings are appropriate to manage resource sector volatility is particularly critical in the context of new resource projects anticipated to come on stream in several years. Addressing governance and institutional challenges is core to this engagement, focusing in particular on supporting sound management of public resources, effective regulation of key sectors, and transparency and accountability to buttress effective PFM, economic analysis, and public debate. Objectives under this focus area will support key priorities identified under pathway 1 of the SCD and respond to risks identified in the RRA related to economic concentration and volatility, and poor management of extractive sector revenues. This focus area aligns with the MTDP III KRA 1, “increased revenue and wealth creation,” and KRA 6, “improved governance.”

Objective 1.1: Strengthen Fiscal Management

46. **Improved macroeconomic management is a prerequisite for achieving the twin goals and for building resilience throughout the economy.** The prevailing fiscal policy anchor based on a debt-to-GDP ratio ceiling has not adequately delinked government spending from revenue volatility in the resource sector. This volatility has undermined the government’s ability to provide—and maintain—good quality services with relatively larger negative impacts on the poor and vulnerable. There is also a need to improve tax compliance to strengthen the revenue base, and to develop a sustainable debt and liability management strategy to reduce risks. Ensuring that monetary policy and exchange rate policies are effective and supportive of growth is essential.

47. **The WBG will support the government in addressing the vulnerabilities inherent in the macroeconomic environment.** In particular, improving the management of mineral resource flows is vital. This can be addressed, in part, by linking fiscal policy to a non-resource primary balance rule so as to discourage procyclical spending. Complementing strengthened fiscal anchors, a sovereign wealth fund (SWF) will act to absorb volatile resource flows and provide a predictable stream of financing to the annual

budget.³¹ Through a series of proposed DPOs, the WBG will support efforts to improve PNG's fiscal framework and economic resilience (including by addressing discrepancies in the foreign exchange market), as well as to strengthen key PFM building blocks and prospects for inclusive growth. Policy and institutional actions supported under the proposed DPOs are measures that have been prioritized by the government in its MTDP III, Medium-Term Fiscal Strategy, Medium-Term Revenue Strategy, and PEFA Road Map. This support will be complemented by a range of advisory services and analytics (ASA), including regular economic reports, an economic growth study, and a series of public expenditure reviews that will address how critical sectors such as health and education can be protected in times of fiscal consolidation. The WBG will continue to support the government in improving tax administration through the SME Tax Administration Project, which supports both a simplified tax regime for SMEs and a comprehensive tax expenditure review. The World Bank could support operationalization of the SWF to coincide with expected inflows into the fund. The Bank is working closely with the IMF on revenue management and monetary and exchange rate policy and aligning closely with the Asian Development Bank (ADB) in the area of budget support. The WBG is also supporting PNG to strengthen fiscal resilience against climate change and natural disasters under the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) program. This technical assistance (TA) is assisting PNG in developing a disaster risk financing strategy, quantifying disaster-related contingent liabilities, and exploring the enhancement of immediate liquidity for rapid responses to climate events and natural disasters.

Objective 1.2: Improve Governance in the Resource Sector

48. An important source of economic growth, foreign direct investment, and foreign exchange, the resource sector has at times been a significant boon for government and for specific local communities (for example, those with ownership rights over extraction sites). It has also been a source of volatility and grievances over environmental degradation (for example, relating to the disposal of mining tailings) and benefit-sharing arrangements. Nevertheless, the government anticipates that the sector will remain critical to PNG's growth and development prospects, and several new mines and LNG projects are being scheduled for 2020 and beyond. The WBG has previously provided considerable support to building institutional capacity in the mining sector. Current engagements with the government focus on supporting specific new developments in the oil and gas sector.

49. The WBG will support enhanced governance of the resource sector. Building upon the WBG's earlier engagement, and subject to available financing and appropriate operational modalities, the WBG has been requested to provide broader strategic TA in a range of areas, including: (i) preparation for resource negotiations, covering fiscal, state equity, and non-fiscal terms; (ii) policy and legislative developments relating to domestic gas market development, as well as the mining sector; (iii) institutional strengthening in regulating the oil and gas sector under a possible Petroleum TA program; (iv) completion of the PNG Mining Sector Diagnostic report to identify areas that could be addressed by a possible Mining TA program, including support for the small-scale alluvial mining sector, which can generate over K500 million for more than 60,000 Papua New Guineans in rural areas; (v) pre-feasibility studies and support for structuring gas-to-power and related investments; and (vi) support for EITI implementation. The World Bank has been requested to provide support to the Autonomous Bougainville Government in strengthening its capacity to manage a re-engagement in the mining sector in the future (Box 3).

³¹ A law establishing the SWF was enacted and certified by parliament in 2016.

Box 3: Strengthening Resilience at Local Levels

Since its establishment in 2005, the Autonomous Bougainville Government (ABG) has sought to build an economic base ahead of a referendum on full independence or continued autonomy—currently planned for June 2019. Given the lack of economic alternatives capable of generating sufficient revenues, Bougainville is unlikely to achieve fiscal self-reliance without a return to mining in some form. In 2017, the ABG partially lifted the moratorium on mining and commenced implementing the Bougainville Mining Act 2015 in Isina (Central Bougainville), Tore (North), and Jaba River (South Bougainville). To date, four artisanal mining leases have been issued. The WBG has been requested to prepare an Autonomous Region of Bougainville: Capacity Building for Sustainable Management of Mineral Resources Project. The project consists of several activities to be financed from the Extractives Global Programmatic Support Multi-Donor Trust Fund to facilitate engagement between the ABG and citizens, communities, and landowner groups; build the capacity of mining-affected communities to engage in decisions on local development; and build the capacity of the ABG to implement the Mining Act.

Focus Area 2: More Effective and Inclusive Service Delivery, Particularly in Underserved Areas

50. Significant improvements in access to, quality and efficiency of service delivery will be key to achieving the twin goals. With low health indicators, a disease burden that is growing in two directions (there is a high prevalence of communicable diseases while the incidence of non-communicable diseases such as diabetes and heart disease has risen sharply), and stagnant educational outcomes, PNG is having difficulty in accumulating the human capital base it needs to achieve the next level of economic progress and opportunity. Deficiencies in access to infrastructure exacerbate the challenges faced by PNG’s population in strengthening their health, education, and economic opportunities. Poor road conditions, for example, raise transport costs, compromise safety, and increase the isolation of residents and businesses in rural areas. Similarly, limited access to reliable, affordable energy services constrains economic growth and exacerbates poverty in rural areas. While the provision and use of information and communications technology has improved markedly in PNG, lags behind comparator countries, exacerbating isolation in rural areas and constraining access to the financial services and market information that could boost livelihoods. In particular, more effective spending needs to be directed toward rural service delivery given the significant urban-rural disparities in access to basic services.

51. The WBG will support the GoPNG in improving the quality of public expenditure directed toward service delivery, including exploring alternative models of delivery and working as much as possible within the government’s decentralized service delivery framework. The WBG will continue to support service delivery improvements in transport, water, and energy, with a focus on improving governance, institutional capacity, and operational performance of key actors, including SOEs, along with strengthening transparency, accountability, and citizen feedback. Building on PNG’s early adoption of the Human Capital Project, the WBG will engage with government and other stakeholders on how to improve human development outcomes over time in health, education, and nutrition, using a broad multisectoral approach. Objectives under this focus area directly support priorities set out under pathway 2 of the SCD and respond to risks identified in the RRA, including those related to fragmented service delivery mechanisms and a need to work with subnational governance structures. This focus area aligns with the MTDPIII KRA 2, “quality infrastructure and utilities,” KRA 3, “sustainable social development,” and KRA 5, “improved service delivery.”

Objective 2.1: Improve Management and Maintenance of PNG’s Road Infrastructure

52. The World Bank has a long history of supporting the rehabilitation of key national transport routes to improve connectivity and underpin diversified growth in PNG, as well as the strengthening of public investment management practices. Through the ongoing RMRPII, the World Bank is supporting institutional arrangements for efficient contracting of road maintenance to the private sector; promoting performance-based contracting of maintenance works;³² strengthening small and medium-sized

³² A chronic lack of funding for road maintenance in PNG has resulted in the rapid deterioration and poor condition of the national road network. The current network is estimated to carry 89 percent of all nationwide passenger and freight traffic and ensures connectivity between transport modes, but only 38 percent of the national road network’s total 8,738 km is reported to be in

contractors; encouraging local community participation in routine maintenance of roads (including targeting women for access to paid work through participation in maintenance groups); and improving the resilience of road infrastructure to natural disasters and climate change through better mapping and resilient construction.

53. The WBG will consolidate its transport sector engagement over the CPF period through the proposed PNG Resilient Transport Project (RTP), in line with the government’s National Road Network Strategy (NRNS). The NRNS makes a clear policy statement of “maintenance first” and looks for ways to secure multiyear funding allocations for maintenance works. This long-term view provides a strong rationale for the World Bank to support the road transport sector with a long-term commitment and a performance-based contracting model. The WBG will support the rehabilitation of several major economic corridors, beginning with the Madang–Ramu Highway under IDA18, which is critical to the government’s long-term plan to develop road infrastructure along an economic corridor linking the port in Lae—PNG’s second-largest city in Morobe Province—with the Highlands region, and through to the northern coast of the country and the border with Indonesia. The RTP will rehabilitate the highway link from the Highlands Highway to Madang and complement the ADB’s Sustainable Highlands Highway Investment Program—a US\$1 billion multi-tranche financing facility rehabilitating the entire length of the Highlands Highway. The WBG’s engagement on this route will align with the proposed Agricultural Commercialization and Productivity Project, with a view to actively fostering market linkages for agricultural enterprises. The strong emphasis placed under the previous CPS on gender in the transport sector will continue through securing women’s inclusion in maintenance contracts and directly addressing GBV risks.

54. Building resilience to climate change will be critical to long-term sustainability. PNG’s transport sector is critically exposed to the effects of climate change. These effects are likely to include higher extreme and average temperatures, rising sea levels, increased rainfall intensity, storm surges, flooding, and more frequent high-category tropical cyclones. Improving the resilience of roads infrastructure to natural disasters and climate change through risk-informed location of roads, resilient construction, and strengthening the country’s limited financial and institutional capacity to proactively manage the road network will be a priority. Use of mobile LIDAR (light detection and ranging) technology is being considered for use in the surveying and design of civil works associated with proposed road projects.

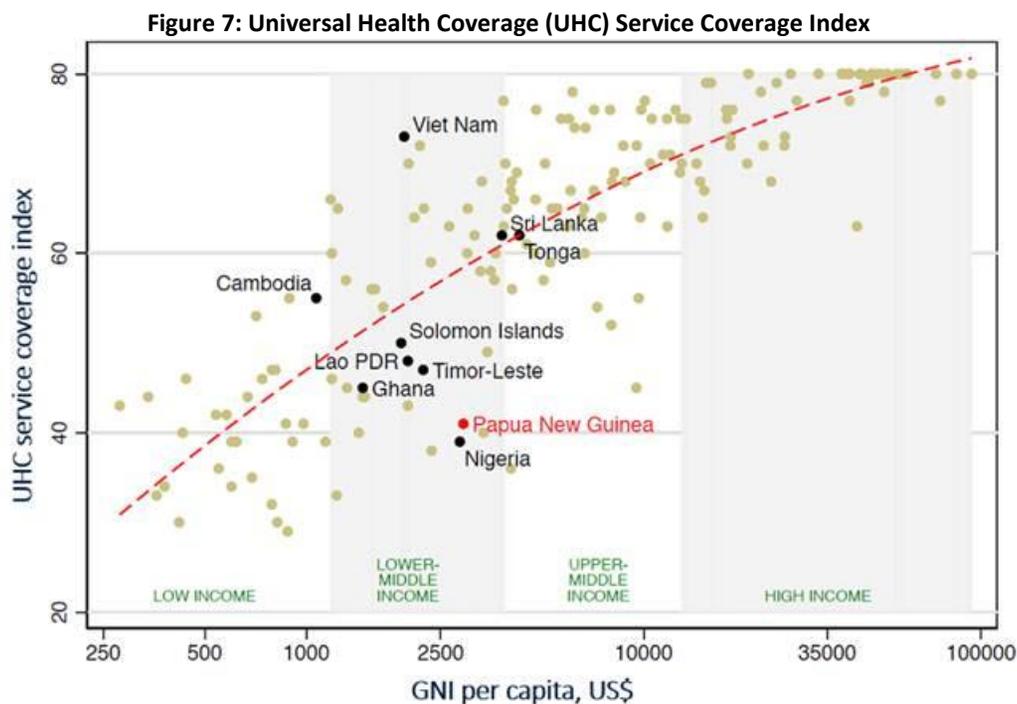
55. The government has sought to align development partners around key strategic road transport assets in the NRNS. ADB is a critical partner in the sector. Australia will continue to support high-impact national maintenance activities via the Transport Sector Support Program, which includes a secretariat function for sector coordination, and China has delivered road improvement works in Port Moresby. The World Bank’s investment in the Hiritano Highway under RMRPII will support IFC’s 3.0 strategy to create markets, notably through strengthening linkages in the agriculture sector.

Objective 2.2: Improve Access to Key Human Development Services

56. Shortfalls in the provision of health care detract from PNG’s progress in human development. The availability, quality, and reach of primary health services is inadequate and severely limited outside urban areas owing to delays in fund flows to the front lines, weak and fragmented accountability for delivery, and a shortage of trained professionals and appropriately resourced facilities (Figure 8). Provision of women’s health services is of particular concern, with only a third of women having access to modern contraceptive methods, only 66 percent of pregnant women attending four or more antenatal care visits, and only 37 percent of women giving birth with the assistance of a skilled attendant. The incidence of non-communicable diseases is rising, placing additional pressure on the health system, while rising rates

‘good’ condition. The government adopted a National Road Network Strategy (NRNS) in May 2018, reiterating its commitment to preserving and maintaining a predesignated Core National Road Network comprising some 16 key corridors of about 2,300 km, including the Ramu Highway. The launch of the performance-based maintenance contract for works on the Hiritano Highway under RMRPII represented the culmination of combined advisory assistance over many years by the WB, DFAT, and the ADB, that also saw a “maintenance first” policy reflected in the NRNS.

of tuberculosis and, in particular, outbreaks of multidrug-resistant and extensively drug-resistant strains, and vaccine-preventable diseases such as polio, pose a serious public health challenge and threaten regional health security.



Source: 2017 Global Monitoring Report, WHO and World Bank (2017)

57. As part of its Human Capital Acceleration Plan, the GoPNG has requested support in strengthening frontline health service delivery and improving value-for-money from public spending in the sector. These efforts will include strengthening the capacity of provincial health authorities with a focus on improving reproductive, maternal, neonatal, and child health services, including nutrition and family planning. The proposed IDA-financed Improving Access to and Value from Health Services Project (IMPACT Health) will complement assistance being provided by other development partners, particularly the ADB. Key development partners have signaled interest in co-financing activities including Australia, the Global Fund for Aids, Tuberculosis and Malaria, and the Global Alliance for Vaccines and Immunizations (GAVI). The project will build upon the World Bank’s engagement through the Emergency Tuberculosis Operation as well as its long-standing ASA³³ on health sector performance in PNG. The Bank has also prepared a Nutrition Action Framework that seeks to embed additional objectives and activities to address child undernutrition in existing and pipeline activities with additional resources for implementation where these are needed.

58. Given the challenges of health service delivery in PNG, IFC will explore opportunities to open the health sector to public-private partnerships (PPP). Adopting PPPs is a strategy to help the government mobilize resources from the private sector to improve the country’s health outcomes. As a first step, IFC has a transaction mandate to rebuild Mount Hagen Hospital, located in the Highlands Region—a catchment of 3 million people who stand to benefit from this redeveloped hospital. The project is set to bring around US\$200 million of private sector funding into the health sector to support diagnostics services, facilities maintenance, and leveraging information technology to tap into potential digital health

³³ The multiyear Programmatic Advisory Services and Analytics program (FY15–18) aims to: (i) improve health financing sustainability by strengthening public financial management, building capacity, and improving efficiency in service delivery; and (ii) collaborate with other practices and partners to intervene directly at the household/community level to improve health outcomes, particularly nutrition outcomes. This activity is financed through a combination of Pacific Facility 4 and Multi Donor Trust Fund financing.

opportunities critical for improving access to health services.

59. The education sector also faces challenges in ensuring adequate service across the country. School enrollment surged to nearly 2 million children in 2014 following the implementation of a Tuition Fee-Free policy in 2012 (compared with about 1 million a decade before). Yet gross enrollment rates (at 96 percent for primary in 2014 and 22.5 percent for secondary in 2013) are still below the average for the developing EAP region. Only 59 percent of the population has completed primary school, and many of those who do finish lack basic literacy and numeracy skills (82 percent and 64 percent, respectively, in 2012). The WBG does not currently engage in the education sector, although the Reading PNG project, completed in 2015, produced positive learning outcomes from a pilot of early-grade reading. The WBG will explore, through ASA, possibilities for improving educational outcomes across the country, including through: (i) helping children to be school ready and motivated to learn; (ii) improving the quality of education with a focus on increasing learning outcomes; (iii) increasing the effectiveness of education service delivery; and (iv) improving government agencies' effectiveness in addressing gaps in early childhood development. Potential operational engagements that could be financed under IDA19 or beyond would be discussed with government at the time of the PLR.

Objective 2.3: Enhanced Access to Improved Water Sources

60. Improving access to safe drinking water and improved sanitation is an important part of the effort to improve livelihood opportunities through better health and nutrition, and to increase the equity of services between urban and rural areas and among different population groups in PNG. These goals are encapsulated in PNG's National Water, Sanitation, and Hygiene policy. The 2015 update of the United Nations Joint Monitoring Program estimates access to safe drinking water and improved sanitation in PNG at 40 percent and 19 percent of the population, respectively. These indicators have improved only marginally in the last two decades. A high-level service delivery assessment conducted in 2013 estimated that US\$2 billion would need to be invested to reach the government's 2030 water supply and sanitation targets. Implementation capacity has been challenged by fragmented sector coordination and institutional changes following the implementation of the new District Development Authority Act in 2014.

61. The WBG's engagement in the WaSH sector is relatively new, with the IDA17-financed Water Supply and Sanitation Development Project building off a significant body of ASA. This project includes the preparation of five-year WaSH plans in selected pilot districts, all of which are required to encompass a gender equity and social inclusion strategy, ensuring that women and girls' roles and needs are included in improved WaSH service delivery. It also supports establishment of the country's first National Water, Sanitation, and Hygiene Authority. The project will support expansion of water supply and sanitation services into areas where the incidence of poverty is most prevalent. Key to this will be significant strengthening of the planning and implementation capacity of water sector institutions at national and district levels, as well as delivery of improved services in key rural and urban areas. Engagement in this sector is a critical part of the WBG's overall strategy to address nutrition shortfalls in PNG, given the correlation of diarrhea and undernutrition.

Objective 2.4: Improve Planning and Operational Capacity for Achieving the Government's Electrification Targets

62. Despite enormous renewable and non-renewable energy resources, PNG has one of the lowest levels of per-capita electricity consumption in the world. About 13 percent of the population has access to on-grid electricity, and another 8 percent to off-grid sources—with major rural and urban differences. Access to reliable and affordable electricity significantly improves people's lives and enables economic growth.³⁴ Under the Electricity Industry Policy of 2011, Development Strategic Plans (2010–2030), and

³⁴ Low levels of access to electricity limits the ability of children to study and access school and health services and exacerbates personal security problems. It also hinders economic activities, for example, refrigeration of fish, pumped irrigation, processing

Vision 2050, the GoPNG has set the ambitious goal of reaching 70 percent access to electricity by 2030. Moreover, Vision 2050 establishes the objective of becoming fully carbon neutral by 2050. Significant financial resources will be needed to reach these targets; the total cost of achieving electrification to 70 percent of PNG households is likely to be around US\$1.8 billion, requiring an increase in generation capacity by about 300 MW by 2030, almost 50 percent of the current capacity installed. Given the government's fiscal constraints and the operational capacity constraints in the sector, leveraging private sector investment and expertise where possible will be critical, particularly in generation (Box 4).

Box 4: MFD in the Energy Sector

Several potential generation projects in PNG provide an opportunity for the World Bank, IFC and MIGA to work together to implement the MFD approach. Results of least-cost power planning options analysis show that several technologies will play a role in meeting PNG's power needs. While over the long term hydro and other renewables generation (such as solar or wind) will be key to meeting the government's access goals and future demand, gas generation can offer an important transition in replacing liquid fuels, lowering power costs, and supporting grid expansion. There is a key role to play by the private sector in implementation of these projects through Independent Power Producers (IPPs). Systematic and coordinated oversight of project selection and adherence to well-prepared competitive bidding processes will be essential to lower supply costs and consumer tariffs, and to drive sustained growth in industrial, commercial, and residential sectors.

The Naoro Brown hydropower project is set to provide a sustainable, cheap source of 80MW of electricity, reducing the cost of electricity generation and improving the reliability of supply. The World Bank Energy Sector Development Project (ESDP) has led efforts to deliver Naoro Brown as the first PPP hydropower project in PNG through support for feasibility studies, transaction advisors to develop a PPP structure, development of safeguards instruments, capacity strengthening of the national power utility, PNG Power Limited (PPL), and development of a benefit-sharing model. In early 2019, the Global Infrastructure Facility provided a recipient-executed grant to support the delivery of an action plan for Naoro Brown that incorporated commercial, legal, engineering, technical, and safeguards considerations for the project. Support for the project will continue through the proposed Energy Utility Performance and Reliability Improvement Project, which will support PPL to become an efficient utility and a credit-worthy off-taker—also a condition for crowding in private sector finance. IFC is working to support the Naoro Brown Hydropower Project, including potentially as investors.

63. The WBG has been supporting the government's ambitious energy sector goals regarding access and renewables. The World Bank has provided: (i) TA for preparation of a National Electrification Roll Out Plan (NEROP) and a least-cost options plan for generation and transmission (including opportunities for the use of domestic gas as a transition in the energy mix); (ii) TA for preparation of the Naoro Brown Hydropower project; (iii) support for mapping renewable energy resources, with a focus on wind; and (iv) technical support on gas negotiations and on gas-to-power options. Under Lighting PNG, IFC has supported the private sector in rolling out solar power systems at the household level. Several development partners—ADB, the Japan International Cooperation Agency (JICA), and the governments of Australia and New Zealand—are supporting the national power utility, PPL, on grid reinforcement and extension, and financing of connections to households.³⁵ During the 2018 APEC Leaders meeting, the

of produce and development of the tourism industry. The development of new copper and gold mines has been constrained to some extent by the lack of reliable and cost-effective power, and the same may be true for other industry that could have been developed in remote areas of the country.

³⁵ The Bank will continue to support the GoPNG on electrification planning, building a platform for partners to collaborate and provide support in a coordinated fashion, and the Bank poised to take a convening role alongside the government in addressing these targets. Investments on electrification could be considered in IDA19. ADB is providing support through the Town Electrification Investment project (TEIP) and the Port Moresby Grid Reinforcement Project. JICA is supporting the development of a transmission line master plan for the Ramu Grid and has identified the need to reinforce the existing 132 kV between Ramu Hydropower station and the Taraka substation to enhance power supply reliability and stability of the Ramu grid. New Zealand is supporting the government and partnering with the ADB under the TEIP program by subsidizing the cost of household connections in the Kimbe–Biälla 33kV Transmission/Distribution interconnection and is supporting the extension of distribution lines on the Port Moresby Grid in the central province, targeted at increasing energy access.

Governments of PNG, New Zealand, Australia, Japan, and the United States issued a joint statement to work together to mobilize investments to support PNG's electrification goals. The GoPNG has requested the WBG to help facilitate this effort.

64. Going forward, the WBG will support the government's ambitions to increase access and stimulate greater low-carbon energy generation through an integrated program of lending, investment, ASA, and TA. The WBG will apply the cascade approach to maximize finance for development to deliver the energy sector program through: (i) exploring least-cost generation options to be implemented through competitive mechanisms, leveraging private sector investment as much as possible; (ii) supporting operational and financial improvements in PPL; and (iii) helping to mobilize public and private sector financing to support the plans. The World Bank's proposed Energy Utility Performance and Reliability Improvement Project will lay the groundwork for expanded access and will provide: (i) TA and transaction support for the implementation of the least-cost power development plan (through gas, hydropower, and other renewable energy including wind and solar power); and (ii) support for improving the operational performance and reliability of electricity supply of PPL, including urgent rehabilitation of key PPL infrastructure in the transmission and distribution sector. The project will target an increase in women's employment in the energy sector. Complimenting these efforts, IFC will explore implementation of PPL divestments, which is key to improving the financial strength of PPL and optimizing the operation of current assets. IFC will also work with PPL on solutions for affordable and reliable generation at its remote and secondary generation centers—including through the use of solar and gas—and will explore business models to leverage private sector investment in off-grid access; a quarter of PNG's population are expected to be served by off-grid solutions, and mini-grids have a central role to play.

65. As the building blocks for NEROP are put in place, and PPL's performance improves, the WBG could support improvements in energy access. This will occur through support for electrification investments (including lines and roads), primarily through public funds and the delivery of electricity generation, including renewables, using commercial finance and private sector solutions where they can be mobilized in a cost-effective way. IFC and MIGA will examine the feasibility of providing support for private sector investment, including for hydropower projects or a gas-to-power facility in the Highlands. Since risks remain high, appropriate risk-sharing instruments such as the IDA Private Sector Window (PSW), including the Risk Mitigation and Local Currency Facilities and the MIGA Guarantee Facility, may be needed to bring the investment program into the commercially investible space.

Objective 2.5: Improve Community Access to Basic Infrastructure and Services, Particularly in Vulnerable Areas

66. Facilitating the delivery of public services at the subnational level has been a priority of policy makers in PNG for decades. The importance of making decentralized and deconcentrated service delivery work is underscored in the Alotau Accord II, which commits to enhancing subnational autonomy and was widely discussed during consultations around the MTDPIII.

67. Strengthening links between national and subnational institutions—and with communities—will be critical to improving service delivery in PNG, and the World Bank could play an important role in supporting and integrating reforms and experience in these areas. Continued engagement through the IDA-funded Rural Service Delivery Project (RSDP) will help to demonstrate the benefits of a community-driven development approach for the delivery of local infrastructure services. Its objectives include the provision of local infrastructure and the demonstration of how infrastructure that accords with the priorities of local people can be provided and maintained effectively using a participatory approach to project prioritization, procurement, oversight, and reporting. Analytical work is planned as part of the RSDP to examine the current institutional arrangements for delivering basic services in rural PNG and to explore practical ways for improving their responsiveness, transparency, and sustainability.

68. The World Bank's dialogue on PFM reforms and subnational service delivery will complement this effort to strengthen state–citizen linkages through engagement at national and subnational levels. The

government is taking important steps to strengthen the PFM system at subnational levels, while creating mechanisms and incentives for coordination between provinces, DDAs, and local-level governments. The Bank has embarked on an exploratory phase of advisory work to support the “last mile” of service delivery at the subnational level, ensuring the delivery of good-quality services that meet the needs of the people using resources made available through the PFM system. Depending on progress in the scoping phase, this work may result in proposals for project support or TA in PFM reform and capacity building, local-level service delivery, or a combination of both.

69. Appropriate support to vulnerable areas will help address risks associated with isolation and fragmentation. Several areas within PNG face a confluence of emerging risks, including the Southern Highlands, where the February 2018 earthquake triggered episodes of violence. In addition, the outcome of the planned 2019 referendum for autonomy or independence in Bougainville, along with the resumption of mining, could trigger communal and wider political conflict along a number of fault lines. The WBG has ongoing and planned engagements in Bougainville in the agriculture and mining sectors, but there is limited engagement in the Southern Highlands, although this area is rich in natural resources. The country team will maintain a Watching Brief on developments in both areas, with a view to ensuring a risk-informed approach to potential and new engagements in line with demand from government and the international community. In Bougainville, the WBG will work closely with the ABG and local communities to ensure strong ownership of ongoing and planned programs and engage closely with the United Nations, other development partners, and NGOs to monitor risks around the referendum.

70. Access to affordable housing is a development challenge confronting PNG, where an opportunity exists to crowd in commercial financing. There is a limited supply of medium and low-end housing, yet the demand for affordable housing is rising, with an estimated 500,000 people living in informal settlements, creating pressure on services and increasing the potential for conflict. Moreover, congested living conditions have accelerated the spread of communicable diseases such as tuberculosis. At the same time, there is a need to reduce housing vulnerability to the potential impacts of climate change and natural disasters. The public sector has limited resources to address the housing challenge in a substantive way. IFC will help open the housing market to large-scale private investment by preparing a model PPP suitable for replication and potential investment by IFC and other investors. IFC will explore long-term financing support for the sector by developing strategic partnerships with good-quality developers and contractors operating in the housing, commercial, and industrial subsectors. IFC Advisory Services will explore opportunities to promote green building standards through EDGE certification³⁶ and undertake upstream analysis to identify requirements for market creation and specific transaction opportunities.

Focus Area 3: Enabling Private Sector Development and Inclusive Growth in the Non-Resource Sector

71. If PNG is to reduce poverty and boost shared prosperity through jobs-intensive, inclusive growth, private sector development efforts will need to be focused on the non-resource economy. Although the resource sector has been a strong performer since independence, its high capital intensity has held back prospects for significant job creation. In contrast, performance in the non-resource economy—where most businesses operate and most Papua New Guineans earn their living—has been less robust. Setting the non-resource economy on a more robust growth trajectory will require addressing multifaceted impediments to the business environment that have kept PNG firms small and undercapitalized and have long starved much of the economy of foreign direct investment. By establishing an appropriate enabling environment, in part through the provision of sound institutions (including those for managing land), essential services, and other key public goods, and through the promotion of improved financial services for individuals and firms alike, the GoPNG can help harness the considerable untapped economic potential of MSMEs, especially in the agriculture and tourism sectors, among others. This focus area aligns with the MTDPIII KRA 1, “increased revenue and wealth creation,” and specifically with the MTDPIII’s Economic Growth Goals under KRA 1. It also aligns directly with the SCD’s third focus area and responds to

³⁶ An IFC innovation, EDGE is a green building certification system focused on making buildings more resource-efficient.

recommendations in the RRA with regard to focusing on smallholder development and youth and female participation.

Objective 3.1: Improve MSME Competitiveness and Access to Financial Services

72. The growth and development of PNG's SME sector in PNG has been slow in comparison to many countries in the region. This can be attributed to several factors, including a lack of access to business finance, appropriate technology, and knowledge on potential business opportunities; a lack of business experience, development, and training; a lack of market information; and poor infrastructure to bring products to market. The World Bank, with funding from the Korea World Bank Group Partnership Facility (KWPF), will provide support to strengthen SMEs through the PNG Accelerate SME Innovations and Finance Program; its aim is to assist SME incubation, start-up, and expansion and strengthen access to finance, information, and innovation. Improving the competitiveness of the SME sector through business regulatory reform will be a priority of IFC's government-facing advisory work. The IFC advisory program will assess and analyze regulatory and institutional impediments to SME competitiveness and support the development of reforms to address these in collaboration with the private sector and government.

73. Access to financial services is a key constraint to the private sector flourishing in PNG. Around 5.8 million people—including 2.5 million women—still lack access to formal financial services, including digital finance, although access is increasing rapidly. While retail banking has established its presence in PNG in recent years, there is still an opportunity for this sector to grow. Only four commercial banks are in operation at present, and they are heavily focused on the formal sector. Many businesses still find it challenging to access finance to support their expansion, competitiveness, and productivity. The expansion of mobile phone networks across PNG, combined with technological advances, offers the potential to transform access to finance. Modernization of payment systems, expanded credit reporting, and improvements to the regulatory environment—including adequate financial consumer protection—are needed to enable these developments.

74. The WBG will aim to increase the supply of finance to micro borrowers and SMEs (including to women-owned businesses), boost the number of mobile banking accounts, improve access to digital services, and increase competition across the financial sector to spur innovation. The first World Bank DPO included actions to support greater financial inclusion, including by helping to close the gap between women and men in new bank account establishment.³⁷ This effort is being complemented by IFC, which aims to support banks and NBFIs with capital and advisory services to increase lending to sectors such as agribusiness, tourism, and power, while supporting new financial products for women and climate finance. Working with the BPNG and related government agencies, the WBG will aim to: (i) further develop the regulatory framework by improving oversight and policies to facilitate MSME finance and supply chain finance by banks and NBFIs and; (ii) improve financial infrastructure, including payment systems and credit reporting. IFC's engagement on digital payments will support regulations related to electronic payments and enabling infrastructure for retail payments and transfers. The WBG will support the introduction of new policies and build sector capacity on consumer protection and responsible finance.

75. The lack of depth and liquidity in PNG's debt-capital market hinders the creation of long-term local currency finance for priority sectors. The absence of a corporate bond market is a particular challenge, and its development is constrained by the lack of market infrastructure, procedures, and practices and a

³⁷ Women have significantly lower levels of financial inclusion than men (holding just over one-third of bank accounts). This is true even where financial services are available in urban communities (38 percent of urban women have some form of savings account, versus 68 percent of urban men), and where women hold jobs in the formal sector (where women's access to financial products still lags that of men). That is, women face additional barriers to accessing finance, unrelated to the barriers arising from their location and their employment status. Financial exclusion is particularly pronounced in rural areas, with only 9 percent of women and 21 percent of men having some form of savings account. See World Bank. 2018. Program Document for a Proposed Development Policy Credit to the Independent State of PNG for the First Economic and Fiscal Resilience DPO, World Bank, September 26. Available at: <http://documents.worldbank.org/curated/en/166231540778435626/Papua-New-Guinea-First-Economic-and-Fiscal-Resilience-Development-Policy-Operation-Project>.

weak regulator. IFC will work to deepen capital markets by assisting PNG regulators in strengthening the legal and regulatory environment to enable private sector issuance of bonds. In addition, IFC will aim to jump-start the market by developing (and possibly investing in) the first private sector bond. IFC is exploring the issuance of an IFC Kina Bond for longer-term local currency.

Objective 3.2: Improve Competitiveness and Productivity of Agriculture and Tourism

76. Agriculture forms a critical component of private sector activity, providing income, employment, and livelihoods for nearly 75 percent of PNG’s population and accounting for a quarter of GDP. Subsistence agriculture and local trading in both urban and rural contexts are key sustaining elements for women in the economy. Growth in the sector has been constrained by poor access to services, markets, land, and credit. Smallholder producers employ poor crop management techniques, agricultural extension services are underfunded, and the sector’s once-reputed institutions have suffered from poor management and oversight. Deteriorated market access infrastructure has reduced agriculture commodities’ competitiveness and quality, and increased prices. High transport costs make imports of farm inputs such as seeds, fertilizers, and pesticides unaffordable for smallholder farmers. Connected to this, a lack of cold-chain storage facilities for agricultural produce at aggregation points along primary transport routes hinders consumer access. This sits in sharp contrast to the enormous economic potential of PNG’s fresh produce sector to supply the domestic market in Port Moresby and elsewhere.

77. PNG has a rich set of strategies, national and sector development plans, and policies related to agriculture. The MTDPIII outlines a twin-track approach to agricultural development that aims, on the one hand, to enhance the production of staple foods with a view to becoming nutritionally food secure and, on the other hand, to develop a strong commercial agriculture sector, including for exports. The WBG is supporting agriculture sector development in PNG through a US\$110.7 million contribution to the Productive Partnerships in Agriculture Project (PPAP). Achievements in the coffee and cocoa sectors through PPAP represent the foundations for strong and sustainable industries. Farmers have realized the benefits of being organized in associations as essential to addressing bottlenecks to production and market access collectively, and there is now an opportunity to build the capacities of cooperatives and farmers’ groups and to introduce new, sectorwide initiatives to further support their development and enable meaningful collaboration with the private sector.

Box 5: MFD in Agriculture—Improving Market Access

Timely and cost-effective market access remains a major barrier to expanding agricultural development in PNG. The current average travel time of 10 days from the Western Highlands to Port Moresby results in high spoilage rates for produce and high transport costs, leading to low quality and high-cost end products. In response, IFC began investigating alternative, more direct routes to Port Moresby to improve the quality and affordability of produce by reducing travel times. The PNG Gulf Transport Route Prefeasibility study commenced in August 2018 with funding support from Australia’s DFAT to explore ways to integrate private investment in agriculture and cold-chain transport logistics with complementary, geographically focused public investments in transport infrastructure.

The WBG will explore with GoPNG and development partners the feasibility of a new economic corridor in Gulf province—located on the southern coast of the country—to link growers and agriculture businesses in the Highlands region to domestic consumers in Port Moresby, which would involve improving land transport from the Highlands to Kikori and maritime transport from Kikori to Port Moresby. If such a project proved feasible, agricultural products from the Highlands could potentially be brought to Port Moresby more quickly and at a lower cost, thereby promoting domestic production and job creation in rural communities.

78. The WBG will support increased capacity and labor productivity of local companies, improved food security, and higher export earnings in the agricultural sector. A coordinated WBG engagement will aim to support small and medium-sized farmers to improve productivity and competitiveness, and to accelerate the transformation of some agricultural producers into more commercial entities (Box 5). To help realize these aims, a new PNG Agriculture Commercialization and Diversification (PACD) project, under IDA18, will build on the strong foundations laid by the PPAP in helping smallholder producers link

to markets and the private sector. The PACD will improve on the PPAP model, applying it to new commodities (beyond coffee and cocoa) and promoting the establishment of commercially viable agriculture cooperatives and producer organizations. It is seeking to: (i) raise agricultural productivity; (ii) link farmers to markets and strengthen value chains; (iii) support rural non-farm income; (iv) reduce risk, vulnerability, and gender inequality; and (v) enhance environmental services and sustainability. Long-run outcomes are expected to focus on increased production, productivity, and competitiveness of key commodities (cocoa, coffee, coconut) and reduced imports of others, particularly small livestock and spices. In line with the PNG National Nutrition Policy (2016–26), the WBG will promote diversification of household-level production and dietary behavioral change. To ensure effective engagement by both men and women in agribusiness, the proposed IDA operation will strengthen approaches that promote joint household planning, budgeting, and management to shift unequal household gender dynamics.³⁸

79. Given PNG’s high vulnerability to climate and disaster-related events, WBG investments in the agriculture sector will adopt innovative technologies. In particular, climate-smart agriculture (agro-forestry, water collection and micro-irrigation, drought resistant varieties, intensification of small livestock production such as poultry and pigs, and bio-digesters), along with improved farming practices, will allow farmers to be more resilient in the face of changing weather patterns, including drought and heavy rain. Feeder roads will be designed and constructed to be resistant to heavy rains, which are increasing and longer-lasting due to climate change. A sophisticated management information system has been developed under the PPAP to support the collection and quick analysis of a vast amount of data related to cocoa and coffee production and marketing, including geo-localization of farms, size of gardens and blocks, number of trees, production level, and farm-gate prices.

80. IFC’s focus on market development in the agriculture sector will align closely with World Bank interventions, including through investment in more efficient transport routes and logistics. IFC will seek opportunities to forge stronger linkages between small farmers and corporations to further develop agro-processing. More specifically, IFC will provide technical support on supply chains, improving companies’ operational standards, increasing resource efficiency, and introducing new technology to improve yields, quality, and efficiency. These efforts by IFC reinforce those of the World Bank to engage with larger enterprises that are not the usual target beneficiaries of IDA-funded projects, but are willing to connect with smallholders through different models (such as out-growers and cooperatives); and to work to graduate aspiring farmers and/or farming groups to the SME level, thereby contributing to the government’s goals of increasing the number of SMEs in PNG. IFC’s agribusiness advisory project includes a focus on women in the context of value-chain upgrading.

81. The WBG will work closely with development partners in the agriculture sector. These include the European Union (EU) and the International Fund for Agricultural Development (IFAD), which have co-financed the PPAP and are planning new projects, as well as Australia’s DFAT, which is supporting research institutions through the Australian Centre for International Agricultural Research (ACIAR) and market access through the Pacific Horticulture and Agriculture Market Access (PHAMA) project.

82. The tourism sector has the potential to catalyze the development of small businesses, thereby creating new jobs. Growth in the tourism sector generates demand for transport, telecommunications, and financial services. Furthermore, supply-chain linkages are created through consumption of local products in tourist accommodations, restaurants, and food markets, and through the stimulation of demand for agriculture, fisheries, handicrafts, and the goods and services of the informal sector. Tourism development presents an important opportunity for social inclusion, as women in PNG’s tourism sector are more likely to be represented as employees and managers. Beyond the provision of income to improve their lives and livelihoods, women working in tourism benefit from a positive impact on their sense of security, social mobility, and empowerment. For PNG’s young population, too tourism can be a pathway

³⁸ The “Family Teams” approach has been developed by the Australian Centre for International Agricultural Research (ACIAR) and CARE’s Family Business Management Training.

to productive employment, thereby providing an alternative to out-migration and urban poverty.

83. The WBG will support the development of a sustainable tourism sector that promotes employment for PNG's unskilled and semi-skilled labor force. IFC has completed a demand-side survey on tourism that has identified US\$75 million of investment requirements to develop the industry. The World Bank is using this study and working with IFC to structure a US\$20 million facility to support the development of the industry through the ongoing Tourism Sector Development Project. This project seeks to strengthen the provincial and national tourism institutional framework and facilitate the development and upgrading of tourism infrastructure, products, and services in the provinces. An accompanying tourism business advisory program for micro and small enterprises, including community groups, will help to provide better economic opportunities for those in the bottom 40 percent of the income distribution, in addition to establishing longer-term employment and business generation pathways and ensuring the preservation of natural and cultural assets. IFC aims to invest in the development of hotel, cruise ship, and cargo wharf infrastructure, while supporting the PNG Tourism Promotion Authority through an International Visitor Survey and Tourism Demand Assessment to help access new markets. It will engage in bespoke business mentoring and product development for Destination Management Companies, such as lead firms in the cruise supply chain, in hub destinations. Given the early nature of these activities, and the planned restructuring of the Tourism Sector Development Project, indicators are not included in the results framework but will be added in at the PLR stage.

Objective 3.3: Deepen Economic Participation of Women and Youth

84. Related to the lackluster performance of the non-resource sector are two key impediments to reducing poverty and boosting shared prosperity: (i) limited economic opportunities for young people, and (ii) gender inequality and high rates of gender-based violence. Evidence suggests that a growing number of young people are moving to urban locations to pursue livelihood opportunities, although they are disproportionately disadvantaged by poverty, limited economic opportunities, poor human capital development, and risky behavior. It is estimated that there are at least 40,000 unemployed youth in the National Capital District (NCD) and that this number is set to increase by more than 50 percent over the next 25 years. Culturally embedded perceptions of the role of women in society and the family, and some legal restrictions, can limit opportunities to engage in employment that is at a distance from home or that involves professions traditionally considered to be the preserve of males.

85. Despite limitations in the job market, reports by employers suggest that there is an opportunity to offer more jobs to youth and women. Consistent with global evidence, employer surveys in PNG show that a combination of soft and practical skills training at all stages of the work cycle is at least as important as building technical skills and makes a difference in increasing employment and social outcomes for poor uneducated youth. The WBG will build on the experiences of the IDA-financed Urban Youth Employment Project (UYEP), with a second IDA-financed project (UYEPII) to help vulnerable urban youth in targeted urban centers gain work experience, skills, and income to enable them to contribute to local development and to facilitate their transition to the labor market. This follow-on project will extend the UYEP's geographic focus beyond the NCD, given the need to address job creation in other urban centers and to increase local content throughout the economy. To motivate female participants to complete the learning pathways, facilitation services and gender targeting will be provided across all training and job placement elements. Among some of the key interventions that will be adopted will be the integration of electronic banking to help protect women's incomes and the potential for crime and violence by reducing cash carried and stored in houses; increasing the training stipend to cover child care; and sensitizing families, trainees, contractors, and project personnel through gender training. The project will build on existing GBV services to address violence prevention and risk factors associated with crime and GBV.

86. Labor mobility also provides an opportunity to support youth employment. Australia and New Zealand have provided preferential access to Papua New Guinean workers in the agriculture and tourism sectors over the past decade, providing critical employment opportunities for unemployed and underemployed youth. The Bank's regional labor mobility program will undertake analytical work that

supports improved take-up by Papua New Guineans of low and semi-skilled opportunities. The Employment Referral Desk of UYEP will, among other things, work with the Department of Labor and Industrial Relations to facilitate the exchange of information (and potentially access) to the Australian seasonal labor program and potentially support a pre-departure training program for candidates.

87. Building on its experience in supporting the PNG Business Coalition for Women (BCFW),³⁹ IFC will lead a cross-cutting effort to increase women’s economic empowerment by providing practical solutions to firms on how to advance gender equality. IFC activities will focus on increasing access to financial services to women-owned businesses and female retail customers and closing gender gaps in employment through direct engagement with client firms. IFC will conduct a feasibility study as part of an effort to improve vocational and technical training for women, as well as measuring the business benefits associated with supporting staff affected by FSV through subscribing to a safe house and case management service (Bel Isi) and implementing a workplace response to FSV. IFC will integrate gender into its work in other industries and sectors as well, which may include promoting women’s access to housing and housing finance through a potential PPP on affordable housing, supporting women as participants and beneficiaries in the tourism sector, and promoting opportunities for women in agribusiness value chains as part of its work on upgrading value chains.

88. IFC is exploring an opportunity to establish a resident technical college for women to learn construction-related trades (such as carpentry, electricity, plumbing, painting, machine operation, and driving). This initiative would address both private sector demand for more trained technical staff and a clear gap in gender employment in construction-related trades. The concept involves the establishment of a private, for-profit training facility with employers paying the fees and living expenses associated with training women in non-traditional trades, helping to develop their skills and improve opportunities for their employment and advancement.

89. The World Bank is exploring the potential scope for going beyond a strictly project-based approach to gender and GBV. UYEP II is exploring a violence prevention pilot within the NCD, responding to the interest of city authorities in urban safety and GBV prevention, and to the high rates of violence and crime that constrain access to opportunities and general well-being among young men and women. UYEP II will focus on building the foundations for the pilot by offering training on GBV and understanding of violence prevention methodologies of key NCD and PMU staff as well as undertaking violence prevention studies and diagnostics (including mappings and data collection to identify the most salient risk factors), which together will help to develop a model of intervention using global best practices, local experience, and available evidence.⁴⁰ There is an opportunity for further analytical work to help unlock the potential for women to play a more prominent role in the economy through better understanding of gender roles. A gender-inclusive cross-cutting approach is proposed to help strengthen the ability of women *and* men to negotiate more equitable economic and family roles, in line with emerging evidence and best-practice programming on “Family Teams” in PNG.

C. Implementing the FY19-23 Country Partnership Framework

90. PNG’s IDA18 allocation is SDR179.2 (approximately US\$250 million).⁴¹ In FY19, an additional \$24.9 million was reallocated in line with IDA18 implementation guidelines, to support the UYEP II (\$5 million) and the DPO II (\$19.9 million). There is scope for PNG to access resources under the Private Sector Window

³⁹ With 70 member-businesses, the BCFW facilitates connections among businesses to demonstrate—through policy, practice, and profit—that women’s economic empowerment is smart economics. IFC provided technical support to establish BCFW and build the capacity of the secretariat, and managed a performance grant to BCFW, during 2014–17.

⁴⁰ Chioda, L. 2017. *Stop the Violence*.

⁴¹ Referenced IDA18 volumes are indicative. Actual PBA allocations will be determined annually during the FY18–20 period and will depend on: (i) total IDA resources available; (ii) the number of IDA-eligible countries; (iii) the country’s performance rating, per-capita GNI, and population; and (iv) the performance and other allocation parameters for other IDA borrowers.

of IDA and the Scale Up Facility over the CPF period. PNG also has access to International Bank for Reconstruction and Development (IBRD) funding. Resources available under IDA19 are anticipated to be broadly in line with IDA18. The government has identified six priority engagements for World Bank support covering the CPF period, although flexibility on investments in the IDA19 period is being maintained. Support has been sought for a DPO series of up to US\$220 million, with a potential additional US\$100 million under IDA19; a road transport engagement focused on the Ramu and Hiritano Highways; an agricultural commercialization project; an expanded second phase of the UYEP; a frontline health service delivery project; and an energy sector program focused initially on institutional strengthening of PPL.

91. A key lesson from the previous CPS period was the need for consolidation in the PNG portfolio. This will take time, given the introduction of new sectors at the end of IDA17. As key drivers and enablers of growth, human capital accumulation, and job creation outside of the extractive industries, macro policy, agriculture, transport, energy, and health have been identified as sectors that leverage the WBG's comparative global expertise. Continuing to engage in areas that support youth employment, local level service delivery, and transparency and accountability are important to manage risks to PNG's development outlook, as identified in the RRA. At the request of the government, the World Bank will focus its investments in these sectors over the IDA18 and IDA19 cycles to align with the MTDP III, ensuring that IDA and IBRD investments support the government's own development planning and coordinated development partner programming. It is not anticipated that any new sectors will be added to the program, although opportunities in the education sector will be explored in line with the Human Capital Project. In addition, opportunities to transition some engagements between the World Bank and IFC, including tourism and SME support, may be feasible.

92. As demonstrated by feedback received through the online/social media component of CPF consultations, more work is needed to build a stronger understanding of the WBG, its role in PNG, and the objectives and results of individual projects and focus areas. This should include work to build a stronger understanding among media, public servants, civil society, and NGOs of the WBG's program and modalities, as well as a concerted effort to build awareness and understanding, particularly in project-affected and/or beneficiary communities, of the nature of WBG engagements. The new CPF provides a valuable opportunity to enhance this awareness.

Table 6: Indicative WBG Lending Program, FY19–23

Operation	Sector	CPF Focus Area	FY	IDA (US\$ m)	IBRD (US\$ m)	Other ⁴² (US\$ m)
FY19–20						
	First Economic and Fiscal Resilience DPO	Macro-	1	FY2019	150	
	Second Economic and Fiscal Resilience DPO	fiscal	1	FY2020	20	50
	Agricultural Commercialization and Diversification	Agriculture	2	FY2020	40	
	Second Urban Youth and Employment	Youth	2	FY2019	35	
WB	Energy Utility Performance and Reliability improvement	Energy	3	FY2020		30
	Resilient Transport	Transport	2	FY2020		50
	Improving Access to and Value from Health Services	Health	3	FY2020	30	
	Subtotal FY2019–FY2020				275	130
	E&S Advisory		1			
	Health & education loans AS/IS	Financial	1			
	Bank Transformation Advisory	Market	1			
	USD SME facility		1			
	2000 Low Cost Housing units	Housing	2			
	Biomass Project	Energy	3			
	Green Building		3			
IFC	Commercial Farming model - Markham Valley	Agriculture	3			
	Casava Flour		3			
	Accommodation Complex		2			
	Wharf Infrastructure	Tourism	3			
	Lae hotel		3			
	SME National Services and marketing portal		1			
	EDGE Gender Certification program	SME	1			
	Value Add processing		1			
Beyond FY20						
	Possible new DPO Series		1			
	Possible Transport Project		2			
	Possible Energy Sector		2			

⁴² Other category includes trust fund grants (MDTF).

Table 7: WBG Sectoral Collaboration

Sector	Description	FY
Transport	Following the release of IFC’s PNG Gulf Transport Route Prefeasibility study, the WBG is actively exploring private investment in agriculture and cold-chain transport logistics with complementary, geographically focused public investments (IDA/IBRD/ADB) in transport infrastructure to create a new supply chain and transport corridor for agricultural producers in the Highlands region to Port Moresby.	FY20 - onwards
Tourism	In 2018, the IFC released the results of a demand-side survey on tourism, which identified that investment of US\$75 million is required to develop the industry in PNG. The World Bank is using this study and working with IFC through the ongoing US\$20 million Tourism Sector Development Project. The IFC and World Bank will continue to collaborate in the sector, exploring a tourism business advisory program for micro and small enterprises; potential investments in developing hotel, cruise ship, and cargo wharf infrastructure; and support to the PNG Tourism Promotion Authority through further advisory assistance.	Ongoing
Energy	The WBG has been supporting the government’s energy sector access and renewables goals by providing: (i) TA for planning, notably in the preparation of the NEROP and least-cost options for generation and transmission (including gas to power); (ii) TA for preparation of the Naoro Brown Hydropower Project; (iii) support for mapping renewable energy resources, with a focus on wind; and (iv) technical support on gas negotiations and on gas-to-power options. The WBG will continue to coordinate the Naoro Brown project, among others.	Ongoing
SME finance	The WBG will support access to financial services for MSMEs through IFC advisory services; the SME Tax Administration Project; and the SME Access to Finance project. The World Bank will support SMEs through the PNG Accelerate SME Innovations and Finance Program, whose aim is to assist SME incubation, start-up, and expansion and strengthen access to finance, information, and innovation. IFC’s advisory program will assess and analyze regulatory and institutional impediments to SME competitiveness and support reforms to address these in collaboration with the private sector and government.	Ongoing

Table 8: Indicative ASA Program, FY19–23

Activities	CPF Focus Area	FY
Existing activities continuing during the CPF period:		
Renewable Energy Resource Mapping and Geospatial	2	FY19
Rural Service Delivery Local Service Delivery	2	FY21
Economic Updates	1	FY19
Nutrition Study	2	FY19
Programmatic ASA in Health Sector	2	FY23
Pacific Programmatic Poverty ASA	1	FY21
Pacific Labor Mobility Program	3	FY21
Mainstreaming WASH Development Planning	2	FY19
Public Financial Management Reform and Sub National Service Delivery	2	FY20
New activities:		
Biannual Economic Updates	1	FY20–23
Public Expenditure Review	1	FY20
Economic Growth Study	1	FY20
Capacity Building for sustainable Management of Mineral Resources	1	FY19
Education SABER Analytical Work	2	FY20
Energy and Extractives Analytical work and Technical Assistance	1/2	FY21
Road Network Institutional Assessments TA (TBC)	2	FY19

Brief Assessment of Country Financial Management and Procurement Systems

93. **The 2015 PEFA reported mixed but generally weak PFM performance.** PNG scored relatively well on the credibility of its fiscal strategy and aggregate budget, however, the high degree of variance between budgets and actual spending at the level of individual appropriation categories indicated underlying issues. PNG also scored reasonably well on policy-based planning and budgeting, and on comprehensiveness and transparency. Performance was weaker, however, on the management of public assets and liabilities and associated fiscal risk; and on the quality, availability, comprehensiveness, and timeliness of bank reconciliations and public accounts. On accountability, the PEFA noted an absence of effective accountability mechanisms stemming from non-compliance with internal controls, numerous reallocations, and little evidence of systematic follow-up of findings of the Auditor General’s Office and Public Accounts Committee reports.

94. **The PEFA Road Map for 2015–18 recognizes the weaknesses in PFM systems identified in the PEFA report and prioritizes the most important remedial actions.** While key PFM reforms are planned under the PEFA Road Map, their implementation and internalization are constrained by capacity limitations in the Department of Finance and in the line departments. Some of the key actions included in the PEFA Road Map, such as the rollout of the integrated financial management system (IFMIS) and improved cash management, are supported by the DPO series. The rollout of the new IFMS is a fundamental platform for many improvements, although it will not necessarily achieve overall PFM strengthening on its own. Several development partners are providing assistance in the implementation of the Road Map and PNG’s broader Financial Management Improvement Program.

95. **The government has recently embarked on a process of procurement reform.** The National Procurement Act 2018 was approved by Parliament in September 2018 and certified by the Speaker of the National Parliament in November of the same year. The Department of Finance has issued a related Instruction (Circular Instruction No. 03/2019 dated February 21, 2019) advising all Public and Statutory Bodies and all Tender Boards on the commencement of the National Procurement Act 2018 and related

Public Finance Management Act amendments, along with the creation of the National Procurement Commission. These laws came into effect on April 1, 2019. The World Bank will provide procurement capacity building to government counterpart staff and/or PMU staff, including the Central Supply and Tenders Board, whenever needed. At the same time, the Bank will seek opportunities to support the government's effort to improve the efficiency of the national procurement system.

IV. PARTNERSHIPS AND DONOR COORDINATION

96. **The Government of PNG has launched a new Development Cooperation Policy.** This policy reflects the government's desire for improved cooperation, under which development partners will work closely with the GoPNG to ensure that programs are aligned with the new MTDPIII.

Box 6: Key Principles of PNG's Revised Development Cooperation Policy

- Respect PNG's Constitutional Directives, its leadership and established protocols
- Development cooperation to be aligned to PNG's plans and strategies
- Consistency with the government's National Service Delivery Framework
- Adherence to PNG's regulations on non-citizen technical advisors and citizen technical advisors
- Development partners to utilize government processes, procedures, and systems to the greatest extent possible
- Development cooperation based on mutual respect, mutual responsibility, transparency, and shared accountability
- Development cooperation resources to be reflected in PNG's budgetary process
- DNPM shall be actively involved in the overall management of development cooperation programming
- Development cooperation shall gradually move to support economically oriented infrastructure enablers and economic growth prospects
- Government shall embrace south-south cooperation

97. **At the national level, the Development Partners Roundtable provides the primary agency-level coordination forum for development partners and the government.** The GoPNG co-chairs the roundtable with the Australian government or the UN. The roundtable acts as a forum for briefing, policy discussion, and exchanges on operational matters. Effective sector-level coordination is limited in PNG, with the exception of transport, law and order, and, more recently, energy. The Transport Sector Coordination, Monitoring, and Implementation Committee meets bimonthly with all government, statutory, and development partner agencies with interests in the sector. Now in its twelfth year, this committee has benefitted from strong government leadership and secretariat support. The Energy Sector Coordination Group commenced meetings in January 2019 following the announcement of the PNG Electrification Partnership between the governments of PNG, Australia, the United States, New Zealand, and Japan during the APEC conference in November 2018, and includes representation from PPL, the WBG, ADB, New Zealand, Japan, the United States, and the private sector.

98. **Given the magnitude of needs across many sectors, a key challenge in PNG is to ensure close alignment and collaboration with donors in various sectors.** In the transport sector, for example, the WBG is investing in priority national roads in economic corridors outside of the Highlands region, which is the focus of the ADB's road transport program in PNG. WBG-financed investments have also focused on linking farmers and rural residents to markets and services in Gulf, Central, and Madang Provinces, and creating a better enabling environment for the tourism sector in Milne Bay. In the energy sector, the WBG will focus on institutional strengthening of the national utility, and limited infrastructure improvements while other partners focus investments on generation and transmission. In health, the WBG will continue

to focus on frontline delivery service in tuberculosis and strengthening provincial health authorities, while other partners deliver national-level activities such as immunization support. This alignment is maintained through close collaboration with partners on the ground in Port Moresby.

99. The WBG will continue its technical and financial cooperation with PNG’s development partners. The World Bank’s cooperation with Australia’s DFAT expanded in the three years leading up to June 2019 with Australian grants through the PNG Strategic Partnership Multi-Donor Trust Fund supporting recipient- and Bank-executed activities valued at approximately US\$47 million. The IFC’s PNG Partnership with Australia and New Zealand grew significantly during this time, with a combined contribution of AU\$40 million (AU\$32 million committed) to support business development and advisory activities carried out by the IFC program. Australian support has funded the WBG’s ASA in SME business development, information and communications technology, energy, agriculture, governance, macro-fiscal policy, and health; as well as recipient-executed grant co-financing of rural service delivery, youth employment, transport, and emergency tuberculosis projects. The WBG has worked closely with the EU, leveraging US\$6.4 million to support additional financing for the PPAP, and US\$36 million in parallel financing from IFAD. WBG cooperation with development partners is expected to expand in the CPF period, in particular in energy, transport, health, and agriculture. Partnerships with the United Nations system are increasing, including with the World Health Organization and the United Nations Office for Project Services in the Emergency Tuberculosis Program, and with the United Nations on a series of data collection pilots in the Southern Highlands, which has synergies with the planned Watching Brief on the Southern Highlands.

V. MONITORING AND EVALUATION

100. As outlined in the SCD, there is a need for more data and knowledge to support evidence-based policy making and to implement reforms in PNG. Understanding of the country’s current poverty status and progress toward the twin goals is limited, as the most recent Household Income and Expenditure Survey (HIES) was carried out in 2009/10. The IMF, the Pacific Financial Technical Assistance Centre, the Australian Bureau of Statistics, and the Pacific Community provide various forms of TA to the National Statistics Office and BPNG⁴³ in support of data collection and dissemination. The IMF has noted recent improvements in the quality of national accounts, fiscal, monetary, and financial sector data. The WBG has been requested to support preparation of the next HIES, which will be used to update the composition of the consumer basket and development of a national consumer price index. This will be undertaken in 2021 after the 2020 Census. The World Bank will support questionnaire and sample design, implementing new technologies such as Computer-Assisted Personal Interviewing software and other methodological innovations to reduce the cost of the HIES.

101. Progress toward the achievement of CPF objectives will be monitored closely to highlight any needed course corrections and allow timely adaptation of activities and approaches in line with the results framework in Annex 1. The results framework lists, as closely as possible, the specific outcomes the WBG expects to influence through ongoing and planned operations and non-financial support, together with relevant measurement indicators, baselines, and targets. In some cases, output or supplementary indicators have had to be used, given limited baselines and data access challenges. The results framework uses—to the extent possible—indicators from individual project monitoring frameworks to maximize the relevance of CPF indicators and minimize data measurement challenges. The lack of major survey data that can be disaggregated by geographic or socioeconomic characteristics makes the collection of meaningful CPF results information extremely difficult. In this regard, the WBG will explore the scope for collaboration across sector teams with regard to identifying and collating key data that may be useful across the program and for the government and development partners. Indicators will be updated at the PLR stage, along with any needed adjustments in the CPF program or the results framework itself. The WBG will separately monitor performance against cross-portfolio targets on climate

⁴³ BPNG is responsible for a number of key datasets (including monetary and financial sector, balance of payments, and employment data).

co-benefits, gender tagging, and citizen engagement.

VI. MANAGING RISKS TO THE CPF PROGRAM

102. **The overall risk to achieving the CPF objectives during the five-year period is assessed as substantial.** Key risks linked to the implementation and achievement of anticipated results include: (i) political and governance risks; (ii) macroeconomic factors; (iii) limited implementation capacity; (iv) fiduciary risks; and (v) environment and social risks (Table 9). These risks will be monitored throughout CPF implementation and, if needed, the PLR will be used to adjust objectives.

Table 9: Risks to Papua New Guinea CPF Objectives

Risk Categories	Rating (H, S, M, L)
1. Political and governance	H
2. Macroeconomic	H
3. Sector strategies and policies	M
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	H
7. Environment and social	S
8. Stakeholders	M
9. Other	-
Overall	S

103. **Even though PNG is a relatively stable democracy, frequent votes of no-confidence occur in parliament.** As such, there is a risk that the current government may change during the course of the CPF, possibly entailing policy reprioritization.⁴⁴ The history of governing coalitions in PNG also suggests that the policy environment can be unpredictable during a coalition's tenure. These factors pose political and governance risks to the program as a whole, but most directly to the DPO engagements, especially given the relatively recent nature of the Bank's stronger economic policy dialogue with the GoPNG. This risk is being mitigated by the adoption of a programmatic approach to budget support, to better facilitate implementation support and monitoring, and the selection of policy and institutional actions to which the government has already directed significant investments and for which it has indicated strong support in its policy dialogue with the Bank. In addition, should significant political and governance risks materialize, the WBG would continue its dialogue with the GoPNG to reconfirm the CPF focus areas and proposed program and, if required, the PLR would be used to adjust the program.

104. **There are a number of downside macroeconomic risks that could adversely affect the achievement of results.** A downturn in commodity prices could indirectly reduce activity in the non-resource economy, which would limit non-resource revenue receipts and increase the risk of a deterioration in the non-resource primary balance, thereby impeding the achievement of results expected under Objective 1.1. If political violence and civil disturbances in the Highlands were prolonged, it could adversely affect oil and LNG production. Moreover, a worsening in the foreign exchange market imbalance would have a negative impact on macroeconomic stability and investor confidence and could possibly harm the likelihood of future investment. To mitigate this risk, the WBG is engaging in a substantially scaled-up dialogue with the GoPNG on macroeconomic policy, in conjunction with the IMF, including providing analytical support through economic updates and planned public expenditure reviews, as well as addressing vulnerabilities in extractive sector governance. In the case of macroeconomic risks arising

⁴⁴ Given that elections were held in July 2017, the earliest possible date for such a vote to occur is after December 2018, since there is a moratorium on holding votes of no-confidence for the first 18 months post-election.

from an external fiscal shock, the World Bank could potentially redirect the lending mix toward more development policy financing, as was the case with the response to the 2018 earthquake.

105. To tackle institutional constraints to program implementation, the WBG will build on existing engagements, limiting the extent to which it engages in new sectors throughout the CPF period. Implementation support will be enhanced by scaling up the WBG's on-the-ground presence in Port Moresby and undertaking more regular and intensive portfolio reviews. An integrated Capacity Building Program, under preparation for PNG and the Pacific, will support the design, development, and testing of a training program for project implementation staff across the Pacific. At the activity level, investments will be designed with a tight focus, avoiding complexity, and implementation support will be further enhanced. Intensive supervision and training to meet WBG fiduciary and procurement standards will be undertaken, alongside policy engagement through the DPO to improve PFM.

106. PNG's fiduciary environment poses risks to the achievement of expected CPF results. The fiduciary risk rating for the majority of WBG operations in PNG is high. Factors affecting fiduciary risk ratings include poor compliance with PNG's financial management laws, the complexity of PNG's national procurement processes, and thin capacity within government. The PEFA will be updated in 2019, providing a basis upon which to discuss fiduciary risks with the government. The World Bank will work with the GoPNG to improve financial management capacity, expenditure controls, and transparency in the use of public funds through technical support aligned to the DPO series, as well as through rollout of the IFMIS.

107. Environmental and social risks are substantial and could affect the achievement of CPF objectives. With the Highlands region being home to some 2.5 million people in many thousands of small villages, vulnerable to weather extremes of heavy rainfall and drought, and the low-lying coastal areas and coral atolls being home to some half a million people in 2,000 villages, vulnerable to weather extremes and inundation, significant disaster events can badly stretch the government's capacity and risk implementation delays. Given the current program's strong focus on infrastructure investments, social and environmental safeguards risks are likely to continue to be prevalent. To mitigate the disaster-related risks, the WBG will work closely with the GoPNG and development partners on ways to strengthen disaster risk management. The WBG will also discuss with government their interest in engaging in institutional and policy reforms in disaster risk management through a potential CAT-DDO. The WBG will ensure that adequate resources are available to apply and support safeguards procedures—assuring compliance and engaging in intensive community consultations—and to build national capacity to better manage the environmental and social aspects of investments, particularly in infrastructure.

108. More generally, fragility and conflict risks may eventuate, particularly in vulnerable areas such as Bougainville. A concerted effort will be made to support teams in understanding the complex social and political environment within which they are working. Engaging fragility experts from within the WBG on project preparation and supervision teams to build capacity and understanding in this regard will be undertaken. The WBG will maintain watching briefs in Bougainville and the Southern Highlands in order to stay abreast of developments and determine necessary program changes and engage closely with partners and government on delivery and supervision.

**Annex 1: Papua New Guinea Country Partnership Framework FY2019–FY2023
Results Framework**

Focus Area 1: Improving Macro and Fiscal Resilience		
<p>Economic growth in PNG has been and continues to be subject to significant upward and downward swings, reflecting an acute vulnerability to international commodity price changes. The inclusiveness of recent growth has been limited by the high capital intensity of the resource sector and the weaker performance of the non-resource sector. This focus area will support the government’s efforts to address macroeconomic vulnerabilities. The most pressing structural weaknesses that warrant attention are: (i) limited macroeconomic management of resource cycle flows; (ii) low revenue mobilization; (iii) rising debt and debt servicing costs; and (iv) limited effectiveness of the monetary policy framework and an imbalance in the foreign exchange market. Objectives under this focus area support key areas identified under Pathway 1 of the SCD. They also respond to risks identified in the RRA around economic concentration and volatility. This focus area aligns with the MTDP III Priority Development Agenda (PDA) 1 on Inclusive Sustainable Economic Growth and PDA 6 on Improved Governance and Accountability.</p>		
MTDP III KRA 1 Increased revenue and wealth creation; KRA6; Improved Governance		
CPF Objective 1.1: Strengthen fiscal management		
<p>Intervention Logic: Improved macroeconomic management is a prerequisite for achieving the twin goals and for building resilience throughout the economy. The existing fiscal policy anchor based on a debt-to-GDP ratio ceiling does not adequately delink government spending from revenue volatility in the resource sector. This volatility has undermined the government’s ability to provide—and maintain—services of good quality, with a relatively larger burden on the poor and vulnerable. There is also a need to improve tax compliance and enforcement to strengthen the revenue base, as well as to develop a sustainable debt and liability management strategy to reduce risks. Improving fiscal management will go a long way toward ensuring insulation from commodity-price-induced volatility, adequate funding of public services, stability, growth, and, risk management. In addition, PNG’s capital markets are relatively underdeveloped, with small stock exchange and a primary government debt market, which hinders the creation of long-term local currency finance for priority sectors.</p> <p>WBG Support: The WBG will support the government in addressing the vulnerabilities inherent in the current fiscal environment. The need to improve the management of mineral resource flows can be addressed, in part, by linking fiscal policy to a non-resource primary balance rule so as to discourage procyclical spending. Complementing strengthened fiscal anchors, the newly legislated sovereign wealth fund (SWF) would act to absorb volatile resource flows and provide a predictable stream of financing to the annual budget. Through a series of DPOs, the WBG is supporting the strengthening of PNG’s fiscal framework and economic resilience (including by addressing discrepancies in the foreign exchange market), as well as the strengthening key building blocks for public financial management and the development of prospects for inclusive growth. Policy and institutional actions supported under the DPOs are measures that have been prioritized by the government in its MTDP III, Medium-Term Fiscal Strategy, Medium-Term Revenue Strategy, Medium Term Debt Strategy, and PEFA Road Map. This support will be complemented by a range of advisory services and analytics (ASA), including regular economic reports, an economic growth study, and a series of public expenditure reviews. The WBG will support the government in improving tax administration through the Small and Medium Enterprises (SME) Tax Administration Project, which is supporting both a simplified tax regime for SMEs as well as a comprehensive tax expenditure review. The WBG could also potentially support the government in preparing for the operationalization of the SWF to coincide with expected inflows into the fund and will support the establishment of well-regulated capital markets.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> Improved non-resource primary fiscal balance as a percentage of non-resource GDP <i>Baseline: -4.5% (2016)</i> <i>Target: less than 1.0% on average (2021-23)</i> 	<ul style="list-style-type: none"> Consistency of the government budget with the MTFs 2018–22, <i>Baseline: 2017 Government does not have a target non-resource primary deficit</i> 	<p><u>Current WB programs:</u></p> <ul style="list-style-type: none"> Development Policy Operation 1 SME Tax Project

<ul style="list-style-type: none"> Increased non-resource tax revenue as a share of GDP <i>Baseline: 13.4% (2016)</i> <i>Target: 15% (2023)</i> Improved accountability and transparency of the use of public funds as evidenced by timely submission of annual financial statements to the Auditor General's Office <i>Baseline: Statements submitted within 12 months after the end of each fiscal year (2017)</i> <i>Target: Statements submitted within 3 months after the end of each fiscal year (2023)</i> 	<p><i>Target: 2020 and 2021 budget outcomes are consistent with the MTFS (2022)</i></p> <ul style="list-style-type: none"> Increased number of risk-based audits as a share of total audits <i>Baseline: 0% (2017)</i> <i>Target: more than 50% (2022)</i> Bank reconciliations in national government departments representing an increasing share of the total expenditure of national government departments are up to date <i>Baseline: ??% (??)</i> <i>Target: 85% (2022)</i> 	<p><u>Current IFC programs:</u></p> <p><u>ASA/TA/TFs:</u></p> <ul style="list-style-type: none"> Economic Updates Country economic memorandum Public Financial Management TA Public Expenditure Review <p><u>Potential new WB programs:</u></p> <ul style="list-style-type: none"> Development Policy Operation II
<p>MTDP/III KRA1 Increased revenue and wealth creation; KRA6 Improved Governance</p>		
<p>CPF Objective 1.2 Improve governance in the resource sector</p>		
<p>Intervention Logic: Despite the resource sector's potential to serve as an engine of economic growth, foreign direct investment, and foreign exchange, it does not appear that such benefits have reached many of PNG's citizens. Nevertheless, the government anticipates that the sector will remain critical to PNG's growth and development prospects. Several new mines and LNG projects are scheduled during the CPF period. In this context and building on substantial prior experience in the mining sector, the WBG has been requested to provide TA to support key governance improvements in the resource sector.</p> <p>WBG Support: Key areas in which WBG support has been requested include: (i) preparation for and conduct of resource negotiations, covering fiscal, state equity, and non-fiscal terms; (ii) policy and legislative developments relating to domestic gas market development; (iii) institutional strengthening in regulating the oil and gas sector under a possible Petroleum Technical Assistance project; (iv) completion of the PNG Mining Sector Diagnostic report to identify areas that could be addressed by a possible Mining TA program, including support for the small-scale alluvial mining sector, which can generate over K500 million for more than 60,000 Papua New Guineans in rural areas; (v) pre-feasibility studies and support for structuring gas-to-power and related investments; and (vi) support for implementation of the Extractive Industries Transparency Initiative (EITI). IFC will continue to explore support for private sector investment in the extractive sector, and MIGA will explore opportunities to support foreign investment. Concurrently, the Bank has been asked to engage with the Autonomous Region of Bougainville to build capacity among government, mining-affected communities, and landowner groups in implementing the Mining Act in Bougainville.</p>		
<p>CPF Objective Indicators</p>	<p>Supplementary Progress Indicators</p>	<p>WBG Program</p>
<ul style="list-style-type: none"> Public disclosure of resource sector data mainstreamed in government reporting systems (in line with the EITI Standard)⁴⁵ <i>Baseline: Limited public disclosure of resource sector</i> 	<ul style="list-style-type: none"> EITI validation confirms satisfactory compliance by PNG EITI with the EITI Standard <i>Baseline: Not yet validated (2018)</i> <i>Target: Satisfactory compliance validated (2023)</i> 	<p><u>ASA/TA/TFs:</u></p> <ul style="list-style-type: none"> BETF for EITI implementation support BETF for energy and gas sector policy and planning

⁴⁵ The EITI Standard defines mandatory data disclosures and what is meant by mainstreaming.

<p><i>data takes place outside annual EITI reports (2018)</i> <i>Target: Public disclosure by government agencies of resource sector data is mainstreamed (in line with the EITI Standard) (2023)</i></p> <ul style="list-style-type: none"> • Petroleum Regulatory authority in operation with an appointed board, chief executive, and all departmental heads in post <i>Baseline: No (2018)</i> <i>Target: Yes (2023)</i> 	<ul style="list-style-type: none"> • Authorization for establishment of a petroleum regulatory authority <i>Baseline: Sector regulation performed by an underfunded and understaffed line department (2018)</i> <i>Target: Legal instrument for establishing a regulatory authority submitted to NEC for endorsement (2021)</i> • Gas sector development roadmap issued laying out a coordinated set of gas sector policies over the medium term <i>Baseline: March 2018 White Paper sets out broad framework for set of gas sector policies (2018)</i> <i>Target: Gas sector development roadmap endorsed by National Executive Council (2023)</i> 	<ul style="list-style-type: none"> • Potential stand-alone RETF or component of an energy and extractives IPF <p><u>Potential new WB programs:</u></p> <ul style="list-style-type: none"> • Mining and Petroleum TA • Bougainville: Capacity Building for the Sustainable Management of Mineral Resources <p><u>Potential new IFC programs:</u></p> <ul style="list-style-type: none"> • Gas to power/IPP transaction
--	---	---

Focus Area 2: Ensuring More Effective and Inclusive Service Delivery, Particularly in Underserved Areas

Significant improvements in the reach, quality, and equity of service delivery will be key to achieving the twin goals. PNG manages to deliver a range of public services despite enormous challenges. The country has working health facilities, schools, judicial and law enforcement bodies, and a functioning set of institutions for public policy and administration that are capable of delivering outcomes. There is a major road network, although fragmented, and key logistical ports (air and sea), and both Internet and electricity are available in urban centers. Yet, given many remaining gaps across all sectors, the SCD suggested four broad pathways to improve service delivery in PNG: (i) increasing the quantity and quality of spending; (ii) mitigating capacity constraints; (iii) improving planning, monitoring, and evaluation; and (iv) improving the functioning of the decentralized institutional service delivery mechanism. The WBG will support improved and more inclusive service delivery through these approaches in sectors where it has expertise and where there is government demand for WBG engagement. At this point in time, the WBG will continue to support improvements in service delivery in transport, health, and water. The WBG will build upon early support in the energy sector to strengthen the overall operating environment for improving generation of renewable energy and enhanced access, with a view to engaging in scaling up access in line with the government’s goals. The potential for the WBG to engage in the education sector will be explored through early analytical work, with further engagements elaborated as appropriate at the mid-point of the CPF. Objectives under this focus area directly support priorities set out under Pathway 2 of the SCD. They also respond to risks identified in the RRA, including those related to weak and fragmented service delivery mechanisms with limited feedback from citizens. This focus area aligns with the government’s Alotau Accord II; the National Health Plan 2011–2020; the National Education Plan 2015–19; the National Road Network Strategy; the National Water, Sanitation, and Hygiene (WaSH) Policy; and the MTDP III PDA 2 on Quality Infrastructure and Utilities, PDA 3 on Sustainable Social Development, PDA 5 on Improved Service Delivery, and PDA 7 on Sustainable Development.

MTDPIII KRA2 Quality Infrastructure and utilities; Priority Area, Infrastructure

CPF Objective 2.1: Improve management and maintenance of PNG's road infrastructure		
<p>Intervention Logic: The condition of PNG's national priority roads has improved over the last decade, but the road network remains highly fragmented. It is not possible to travel by land between most provinces or ports, and rural accessibility is low, with just 68 percent of the rural population living within 2 km of an all-season road. Over 75 percent of the country's road network becomes impassable at some point during the year, and a lack of investment and maintenance is causing the overall condition of the road network to deteriorate over time. Under the government's National Road Network Strategy (NRNS), the Department of Works is moving toward long-term maintenance programs for its core national network, through contracting road maintenance to the private sector, strengthening small and medium-sized contractors, and encouraging the participation of local communities in routine maintenance of roads.</p> <p>WBG Support: Through the ongoing Road Maintenance and Rehabilitation Project II (RMRPII), the WBG will support institutional arrangements for efficient contracting of road maintenance to the private sector, promoting performance-based contracting of maintenance works, strengthening small and medium-sized contractors, encouraging local community participation in routine maintenance of roads, and improving the resilience of roads infrastructure to natural disasters and climate change through better mapping and resilient construction. The WBG envisages extending its transport sector engagement over the CPF period through the proposed PNG Resilient Transport Project (RTP), which will rehabilitate several major economic corridors, beginning with the Madang–Ramu Highway, in line with the NRNS.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> Improved condition of key roads identified as priorities in the government's National Road Network Strategy, as measured by: <ul style="list-style-type: none"> Roads rehabilitated in target provinces under RMRPII (km) <i>Baseline: 123 (December 2018)</i> <i>Target: 185 (2021)</i> Roads constructed or rehabilitated with climate resilience and identified safety measures (km) under RTP <i>Baseline: 0 (2018)</i> <i>Target: 50 (2023)</i> Total travel time reduced on rehabilitated road sections: <ul style="list-style-type: none"> Hiritano Highway (Vanapa Bridge to Bereina) <i>Baseline (2018): 1 hour, 30 minutes</i> <i>Target (2023): 1 hour, 10 minutes</i> East Cape Road <i>Baseline (2018): 2 hours</i> <i>Target (2023): 1 hour</i> Improved institutional maintenance arrangements in the road sector, as measured at the institutional and community level by: 	<ul style="list-style-type: none"> Natural disaster and climate risks measures incorporated into design and maintenance of roads as reflected in tender documents by an increase in average culvert widths to manage increased rainfall <i>Baseline: 600 mm (2019)</i> <i>Target: 900 mm (2021)</i> Improvement in average Index of Road Roughness on rehabilitated roads (average/km): <ul style="list-style-type: none"> Hiritano Highway (Vanapa Bridge to Bereina) <i>Baseline (2018): 3.35</i> <i>Target: (2023): 2.80</i> East Cape Road <i>Baseline (2018): 4.89</i> <i>Target: (2023): 3.35</i> Number of domestic companies trained in performance-based contracts <i>Baseline: 3 (2019)</i> <i>Target: 10 (2023)</i> 	<p><u>Current WB programs:</u></p> <ul style="list-style-type: none"> Road Maintenance and Rehabilitation II (FY2011-21) <p><u>Current IFC programs:</u></p> <p><u>Potential new WB programs:</u></p> <ul style="list-style-type: none"> Resilient Transport Project (FY2020) <p><u>Potential new IFC programs:</u></p>

<ul style="list-style-type: none"> – Cumulative number of performance based (maintenance) contracts awarded for government road works <i>Baseline: 0 (2018)</i> <i>Target: 4 (2023)</i> – Number of person days worked by women in project-related routine road maintenance activities <i>Baseline: 2,496 (September 2018)</i> <i>Target: 3,245 (2023)</i> 		
MTDP/III KRA3 Sustainable Social Development; KRA5 Improved Service Delivery		
CPF Objective 2.2: Improve access to and quality of human development services		
<p>Intervention Logic: Despite long-run improvements in a number of health indicators in PNG, significant shortfalls remain, largely as a consequence of shortcomings in the related public service delivery. The availability, quality, and reach of primary health services is inadequate overall, and severely limited outside urban areas owing to delays in fund flows to the front lines, weak and fragmented accountability for delivery, and a shortage of trained professionals and appropriately resourced facilities. The disease burden in PNG is growing in two directions, with an uncharacteristically high prevalence of communicable diseases along with a sharply rising incidence of non-communicable diseases; together, these place a heavy burden on the health system. Provision of women’s health services is of particular concern, with only a third of women having access to modern contraceptive methods, only 66 percent of pregnant women attending four or more antenatal care visits, and only 37 percent of women giving birth with the assistance of a skilled attendant.</p> <p>WBG Support: The WBG will continue to support the Emergency Tuberculosis program, which aims to control the spread of tuberculosis (TB) in two hotspots, Western Province, and the National Capital District, including through central-level support for coordinated, rapid responses. In addition, the government has requested WBG support for strengthening frontline service delivery and improving value for money in public spending on health. The government’s request includes specific reference to improvements in reproductive, maternal, neonatal, and child health services, including nutrition and family planning. The proposed IMPACT Health Project will build upon the WBG’s existing engagement through the Emergency Tuberculosis operation, as well as its long-standing program of ASA on health sector performance in PNG. ASA on nutrition will develop recommendations on possible future interventions to help improve nutrition outcomes in PNG. IFC will develop opportunities for public-private partnerships in the health sector to support the availability of essential services and equipment at frontline health facilities at scale.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> • Treatment success rate for drug-susceptible tuberculosis under Emergency Tuberculosis project <i>Baseline: 56% in NCD, 71% in Daru/South Fly District, Western Province (August 2017)</i> <i>Target: 85% in both NCD and Daru/South Fly District, Western Province (2023)</i> 	<ul style="list-style-type: none"> • Increased number of Basic Management Units where all clinical staff have been trained/retrained on TB and drug-resistant TB in NCD and Western Province <i>Baseline: 0 (2017)</i> <i>Target: 20 (2022)</i> • Population-based screening in Daru completed <i>Baseline: No (2017)</i> <i>Target: Yes (2022)</i> • Organizations supported by Emergency TB project publish regular reports on feedback received from citizens and/or communities and if/how this feedback 	<p><u>Current WB programs:</u></p> <ul style="list-style-type: none"> • Emergency Tuberculosis (FY2017-22) <p><u>ASA/TA/TFs:</u></p> <ul style="list-style-type: none"> • Nutrition ASA (2018-19) • Programmatic Health ASA (2018-21) <p><u>Potential new WB programs:</u></p> <ul style="list-style-type: none"> • IMPACT Health: Financing the Frontlines • Dialogue on Human Capital Project

<ul style="list-style-type: none"> Increased access to primary health services in project-supported provinces, as measured by: <ul style="list-style-type: none"> Increased number of antenatal care (ANC) check-ups <i>Baseline: TBC once target provinces identified (2019)</i> <i>Target: TBC once target provinces identified (2023)</i> Increased number of fully immunized children <i>Baseline: TBC once target provinces identified (2019)</i> <i>Target: TBC once target provinces identified (2023)</i> 	<p>has been taken into account <i>Baseline: No (2017)</i> <i>Target: Yes (2022)</i></p> <ul style="list-style-type: none"> Increased number of level 1-4 facilities in project-supported provinces that meet minimum quality standards for ANC, institutional deliveries, family planning, immunizations, TB detection and treatment, and Vitamin A supplementation <i>Baseline: TBC once target provinces identified (2019)</i> <i>Target: TBC once target provinces identified (2023)</i> Increased number of outreach patrols carried out each year in project-supported provinces <i>Baseline: TBC once target provinces identified (2019)</i> <i>Target: TBC once target provinces identified (2023)</i> 	<p><u>Potential new IFC programs:</u></p> <ul style="list-style-type: none"> Health sector PPP to improve medical facilities in Highlands
MTDP/III KRA2 Quality infrastructure and utilities; KRA5 Improved Service Delivery		
CPF Objective 2.3: Enhanced access to improved water sources		
<p>Intervention Logic: Access to safe drinking water and improved sanitation is relatively low in PNG, at 40 percent and 19 percent, respectively, in 2015, with significant shortfalls in funding for operations and maintenance and serious ramifications for health and human development. These indicators are the lowest among Pacific Island nations and have improved marginally, if at all, in the last two decades. The National Water, Sanitation, and Hygiene (WaSH) Policy aims to reduce morbidity and mortality caused by water-related diseases; promote livelihood opportunities and economic growth through improved health and reduced economic and financial losses; and increase the equity of services between rural, peri-urban, and urban areas, and to disadvantaged groups.</p> <p>WBG Support: The WBG will continue to support the development and strengthening of planning and implementation capacity in water sector institutions and to increase access to water supply and sanitation services in selected urban towns and rural districts.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> Increased number of people in urban areas provided with access to improved water sources under WSS project (disaggregated by gender) <i>Baseline: 0 (May 2018)</i> <i>Target: 40,000 (2023)</i> Increased number of people in rural areas provided with access to improved water sources under WSS project (disaggregated by gender) <i>Baseline: 0 (May 2018)</i> <i>Target: 70,000 (2021)</i> 	<ul style="list-style-type: none"> New piped household water connections resulting from WSS project interventions <i>Baseline: 0 (2018)</i> <i>Target: 4,000 (2023)</i> Improved community water points constructed or rehabilitated under WSS project <i>Baseline: 0 (2018)</i> <i>Target: 2,000 (2023)</i> Country's first National Water, Sanitation and Hygiene Authority established <i>Baseline: No (2019)</i> <i>Target: Yes (2020)</i> 	<p><u>Current WB programs:</u></p> <ul style="list-style-type: none"> Water Supply and Sanitation (FY2017-23) <p><u>ASA/TA/TFs:</u></p> <ul style="list-style-type: none"> Enhancing Water PNG's capacity to deliver services in secondary towns Mainstreaming WaSH development planning and implementation in District Development Authorities

MTDP III KRA2 Quality Infrastructure and utilities; KRA 5 Improved Service Delivery

CPF Objective 2.4: Improve planning and operational capacity for achieving government’s electrification targets

Intervention Logic: Despite enormous energy resources, PNG has one of the lowest levels of per-capita electricity consumption in the world. Only about 12.4 percent of the population has access to on-grid electricity, and another 8 percent to off-grid sources—with major rural and urban differences. Under the Electricity Industry Policy of 2011, Development Strategic Plans (2010–2030), and Vision 2050, the government has set the ambitious goal of reaching 70 percent access to electricity by 2030. Moreover, Vision 2050 establishes the objective becoming fully carbon neutral by 2050. The lack of access to affordable and reliable power supply is constraining economic growth in both the main urban areas and smaller urban centers and contributing to poverty in rural areas. It hinders economic activities, restricts access to school and health services, and exacerbates already severe personal security problems.

WBG Support: The World Bank has been supporting the government’s ambitious access and renewable goals in the energy sector through: (i) TA for planning, notably for preparation of a detailed National Electrification Rollout Plan (NEROP) and studying least-cost options for generation and transmission; (ii) TA for preparation of the the Naoro Brown Hydropower project; (iii) support for mapping of renewable energy resources, with a focus on wind; and (iv) technical support on gas negotiations and on gas-to-power options. Under Lighting PNG, IFC is supporting the private sector in rolling out solar systems at the household level and working with PNG Power Limited (PPL) on solutions for providing affordable and reliable generation through a series of mini-grids through an independent power producer model that would use solar and gas in more isolated centers. The WBG will continue to support the strategy, policy framework, and building blocks in support of the government’s electrification targets through efforts to lower the cost of supply and transforming PPL into a capable agent for electrification, through: (i) technical assistance for energy sector planning and for the implementation of least-cost projects for the country identified in the planning process and (ii) improvement of operational and financial performance of the utility. Ultimately, lowering the cost of supply and building PPL into an efficient utility and a credible off-taker will not only establish a sound vehicle for implementation of electrification projects, but also enable attracting private investments, including potentially by IFC, to the sector.

<ul style="list-style-type: none"> Improved operational performance of PPL to support expanded access to cheaper, reliable electricity, as measured by: <ul style="list-style-type: none"> Electricity losses in the project area <i>Baseline: 25% (2018)</i> <i>Target: 22% (2023)</i> Collection for post-paid private customers <i>Baseline: 70% (September 2018)</i> <i>Target: 90% (2023)</i> At least one Independent Power Producer (IPP) taken to financial closure <i>Baseline: No (2019)</i> <i>Target: Yes (2023)</i> 	<ul style="list-style-type: none"> Percentage of total sales (KWh) covered by the Revenue Protection Program <i>Baseline: 0% (April 2019)</i> <i>Target: 65% (2023)</i> Transmission capacity constructed or rehabilitated through the project <i>Baseline: 0 (April 2019)</i> <i>Target: 30 MVA (2023)</i> Detailed National Electrification Rollout Plan (NEROP) implementation plan in place <i>Baseline: No (September 2018)</i> <i>Target: Yes (2021)</i> 	<p><u>Current WB programs:</u></p> <ul style="list-style-type: none"> Energy Sector Development (FY2013-2020) <p><u>Current IFC programs:</u></p> <ul style="list-style-type: none"> Pacific Renewable Energy Generation PNG Power Limited on off-grid solutions <p><u>ASA/TA/TFs:</u></p> <ul style="list-style-type: none"> Renewable Energy Resource Mapping in Papua New Guinea (P145864; ESMAP/ASTAE) PNG Strategic Partnership MDTF for Sustainable Energy Engagement Support for Sustainable Hydropower; PPIAF) Benefit-Sharing Study (ESMAP) <p><u>Potential new WB programs:</u></p> <ul style="list-style-type: none"> Energy Utility Performance and Reliability Improvement Project (FY20) <p><u>Potential new IFC programs:</u></p> <ul style="list-style-type: none"> Investments in renewable energy generation, such as Naoro Brown Hydro, off-grid solutions, and biomass
---	---	---

MTDP III KRA5 Improved Service Delivery; KRA6 Improved Governance;

CPF Objective 2.5: Improve community access to basic infrastructure and services particularly in vulnerable areas

Intervention Logic: Facilitating the delivery of public services at the subnational level has been a priority of policy makers in PNG for decades. The importance of making decentralized and deconcentrated service delivery work is underscored in the Alotau Accord II, which commits to enhancing subnational autonomy and was widely discussed during consultations around the MTDP III.

WBG Support: The WBG will continue to support the IDA-funded Rural Services Delivery Project (RSDP), which is using a community-driven development (CDD) approach to the delivery of local infrastructure services (such as classrooms, health aid posts, water supply and sanitation systems, and so on). Analytical work under the RSDP will examine the current institutional arrangements for delivering basic services in rural PNG, and explore practical ways for improving their responsiveness, transparency, and sustainability. The Bank’s dialogue on PFM reforms and subnational service delivery will involve engagement at both national and subnational levels. The Bank has embarked on an exploratory phase of ASA to identify how Bank expertise and cross-country experience may be able to support the “last mile” of service delivery at the subnational level—ensuring the delivery of good-quality services that meet the needs of the people using the resources made available through the PFM system. Depending on progress in the scoping phase, this may result in proposals for project or TA in PFM reform and capacity building, local-level service delivery, or a combination.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> ● Improved access to basic infrastructure and services through participatory planning approaches in targeted communities, as measured by: <ul style="list-style-type: none"> – Number of people, including women, benefiting from RSDP <i>Baseline: 0 (October 2017)</i> <i>Target: 320,000, of which 50% women (2022)</i> – Share of RSDP beneficiaries reporting improved access to basic services <i>Baseline: 0% (October 2017)</i> <i>Target: 80% (2022)</i> ● Increased availability of affordable housing in Port Moresby, as measured by the number of affordable housing units constructed with contributions from private investment <i>Baseline: 0 (2018)</i> <i>Target: 1,000 (2023)</i> 	<ul style="list-style-type: none"> ● Number of wards in targeted local governments that have received a ward development grant <i>Baseline: 73 (October 2017)</i> <i>Target: 200 (2022)</i> ● Number of subprojects completed in local governments targeted by RSDP <i>Baseline: 0 (October 2017)</i> <i>Target: 320 (2022)</i> ● Number of additional primary school classrooms built or rehabilitated under RSDP subprojects <i>Baseline: 0 (October 2017)</i> <i>Target: 80 (2022)</i> ● Number of health facilities constructed, renovated, and/or equipped under RSDP subprojects <i>Baseline: 0 (October 2017)</i> <i>Target: 80 (2022)</i> ● Number of housing PPP mandates signed with clients <i>Baseline: 0 (2018)</i> <i>Target: 1 (2023)</i> 	<p><u>Current WB programs:</u></p> <ul style="list-style-type: none"> ● Rural Service Delivery Project (FY2017-22) <p><u>Current IFC programs:</u></p> <ul style="list-style-type: none"> ● PNG Affordable Housing – Feasibility Study <p><u>ASA/TA/TFs:</u></p> <ul style="list-style-type: none"> ● ASA under RSDP <p><u>Potential new WB programs:</u></p> <ul style="list-style-type: none"> ● PFM for Local Service Delivery

Focus Area 3: Encouraging Private Sector Growth and Job Creation in the Non-Resource Sectors

If PNG is to reduce poverty and boost shared prosperity through jobs-intensive, inclusive growth, private sector development efforts will need to be focused on the non-resource economy. Although the resource sector has been a strong performer since independence, its high capital intensity has held back prospects for significant job creation. In contrast, performance in the non-resource economy—where most businesses operate and where most Papua New Guineans earn their living—has been poor. Setting the non-resource economy on a more robust growth trajectory will require addressing multifaceted impediments to the business environment that have kept PNG firms small and undercapitalized and has long starved much of the economy of foreign direct investment. By establishing an appropriate enabling environment, including through the provision of sound institutions, essential services, and other key public goods, and promotion of improved financial services for individuals and firms alike, the GoPNG has an important role to play in harnessing the considerable untapped economic potential of MSMEs, especially in the agriculture and tourism sectors, among others. The WBG is providing support to government to help stimulate growth in non-resource sectors, most specifically agriculture and tourism. Given the early nature of the engagement in tourism, at this stage only indicators related to the expansion in agriculture are being measured, while the scope for significant outputs under tourism will be reviewed during the PLR. Objectives under this focus area support key areas identified under Pathway 3 of the SCD. They also respond to risks identified in the RRA around the exclusion of youth and women from economic opportunities. This focus area aligns with the MTDP III PDA 1 on Inclusive Sustainable Economic Growth and PDA 6 on Improved Governance and Accountability.

MTDP III KRA1 Increased revenue and wealth creation		
CPF Objective 3.1: Improve MSME competitiveness and access to financial services		
<p>Intervention Logic: The growth and development of SME sector in PNG has been constrained by several factors such as access to business finance, lack of capacity, business acumen, development and training, lack of information to market, lack of access to appropriate technology, knowledge on potential business opportunity, poor infrastructure to bring products to markets (e.g. road, power) access to information and access to finance. Access to financial services is also a key constraint to private sector development in PNG. Around 5.8 million people, including 2.5 million women, lack access to formal financial services, including digital finance. As such, 80 percent of the population are regarded as unbanked. This necessitates increasing products, especially into the agribusiness and tourism sectors, as well as supporting lending to MSMEs, and particularly those which are women-owned.</p> <p>WBG Support: The WBG will provide support to promote and strengthen SMEs through the PNG Accelerate SME Innovations and Finance Program whose aim is to assist SME incubation, start up and expansion stage development and better access to finance, information and innovation. Improving the competitiveness of the SME sector through business regulatory reform will continue to be a priority of IFC's government-facing advisory work. The IFC advisory program will assess and analyze regulatory and institutional impediments to SME competitiveness in PNG and support the development of reforms to address these in collaboration with the private sector and government.</p> <p>A coordinated approach will be undertaken to continue to increase the supply of finance to thousands of micro borrowers and SMEs, boost the number of mobile banking accounts, increase client access to digital services and the number of accounts linked for government-to-person, including for women. The first World Bank DPO includes actions to support greater financial inclusion, including by helping to close the gap between women and men in new bank account establishment. This effort is being complemented by IFC, which will aim to increase access to financial services, including digital finance; beyond risk sharing facilities to banks, it also encompasses NBFIs. The IFC advisory program will assess and analyze regulatory and institutional impediments to MSME competitiveness in PNG and support reforms to address these in collaboration with the private sector and government. It will also continue to work with the BPNG to develop regulations to facilitate MSME finance and supply chain finance by bank and NBFIs; this includes electronic funds transfers, retail payment instruments, oversight, and agent banking. IFC will support NBFIs become full-fledged commercial banks, with a focus on risk management and MSME financing. The WBG will support the introduction of new policies and build sector capacity on consumer protection and responsible finance.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> Financial inclusion increases, as measured by: <ul style="list-style-type: none"> Percentage of individuals with an account at a regulated financial institution <i>Baseline: 36.96 percent (June 2016)</i> <i>Target: ≥ 50 percent (June 2020) [to be reconfirmed]</i> Declining gender gap in new bank account establishment <i>Baseline: 26 percent of the new bank accounts established 2013-2016 were by women (2016)</i> <i>Target: ≥ 35 percent of the new bank accounts established 2016-2020 are by women (2020)</i> Increased credit available to SMEs on an annual basis from participating financial institutions 	<ul style="list-style-type: none"> New national switch platform implemented by Bank of Papua New Guinea (BPNG) and available to all regulated financial institutions, including microfinance institutions <i>Baseline: No (2018)</i> <i>Target: Yes (2023)</i> Draft regulation on agent banking (already completed by BPNG with WBG support) adopted and new national switch system for retail payments established <i>Baseline: No (2018)</i> <i>Target: Yes (2020)</i> Number of SME businesses that benefit from a BPNG credit facility 	<p><u>Current WB programs:</u></p> <ul style="list-style-type: none"> Development Policy Operation I SME Tax Project <p><u>Current IFC programs:</u></p> <ul style="list-style-type: none"> Consumer Protection Reform of the National Payment System and Government-to-Person Payments System Implementation of the PNG Interoperable Switch for Electronic and Mobile Transactions and Third-Party Card Issuance KinaBank Transformation Bank South Pacific Expansion

<p><i>Baseline: 15% per year (2018, Bank of South Pacific)</i> <i>Target: 10% per year (2023)</i></p> <ul style="list-style-type: none"> Reduction in SME tax and regulatory compliance costs, as measured by total annual private sector savings <i>Baseline: \$0 for tax compliance; \$0 for regulatory compliance (March 2018)</i> <i>Target: \$7.6 million for tax compliance; \$0.5 million for regulatory compliance (2023)</i> Long term financing raised on government and corporate debt markets <i>Baseline: zero (2018)</i> <i>Target: Yes (2023 \$50 million in long term finance raised in bond markets for private sector investment)</i> Improved financial consumer protection, as measured by number of financial institutions compliant with new FCP regulation <i>Baseline: 0 (March 2018)</i> <i>Target: 16 (2023)</i> 	<p><i>Baseline: 1,700 (2018, Bank of South Pacific)</i> <i>Target: 2,700, of which 200 women-owned (2023)</i></p> <ul style="list-style-type: none"> Quarterly filing and simplified accounting rule adopted for small business taxpayers <i>Baseline: No (2018)</i> <i>Target: Yes (2021)</i> Policy/guidance on bond issuance adopted and new Central Securities and Depository and Auction System for bond market established <i>Baseline: 0 (2018)</i> <i>Target: 2 systems and 1 guidance note (2021)</i> Financial consumer protection legal and regulatory framework that promotes innovation and the achievement of financial inclusion targets adopted <i>Baseline: No (2018)</i> <i>Target: Yes (2021)</i> 	<p><u>Potential new WB programs:</u></p> <ul style="list-style-type: none"> Development Policy Operation II
---	---	--

MTDP III KRA1 Increased revenue and wealth creation; KRA 7 Responsible Sustainable Development

CPF Objective 3.2: Improve the competitiveness and productivity of agriculture and tourism

Intervention Logic: Agriculture forms a critical component of private sector activity, providing income, employment, and livelihoods for nearly 75 percent of PNG’s population and accounting for a quarter of GDP. Subsistence agriculture and local trading in both urban and rural contexts are key sustaining elements for women in the economy. However, growth in the sector is limited by poor access to services, markets, land, and credit. Smallholder producers employ poor crop management techniques, agricultural extension services are underfunded, and the sector’s once-reputed institutions have suffered from poor management and oversight. The tourism sector also has considerable potential to catalyze the development of small businesses, thereby creating new jobs.

WBG Support: The WBG will support the agriculture sector through the new PNG Agriculture Commercialization and Diversification (PACD) project, building on the strong foundations laid by the preceding Productive Partnerships in Agriculture Project (PPAP) in helping smallholder producers link to markets and the private sector. Through these activities, the PACD seeks to help support rural nonfarm income; reduce risk, vulnerability, and gender inequality; and enhance environmental services and sustainability. Strong coordination with IFC is under way in areas such as TA on farm efficiency and supply chain linkages, support to larger enterprises that are willing to connect with smallholders, and efforts to graduate aspiring farmers and/or farming groups to the SME level, thereby supporting the government’s goal of increasing the number of SMEs in PNG. IFC will seek opportunities to address key market failures in the agriculture sector through advisory services and investments aimed at supporting initiatives in the Markham and Ramu valleys.

The WBG will continue to engage in the tourism sector under the ongoing Tourism Sector Development Project, which aims to strengthen the provincial and national tourism institutional framework and facilitate the development of tourism hubs (main town) and spokes (tourist attractions around the hubs, including cultural and natural

<p>heritage sites) in the provinces. IFC will pursue a range of potential investments in hotel infrastructure and tourism/cargo wharf development, while also supporting the PNG Tourism Promotion Authority through an International Visitor Survey and Tourism Demand Assessment to identify tourism demand and access new markets. IFC will engage in bespoke business mentoring and product development for destination management companies in hub destinations. Given early stage of engagement by both WB and IFC in the sector, results framework will be updated at PLR for new outcomes and indicators.</p>		
<p>CPF Objective Indicators</p>	<p>Supplementary Progress Indicators</p>	<p>WBG Program</p>
<ul style="list-style-type: none"> ● Improved productivity of key smallholder crops, as measured by: <ul style="list-style-type: none"> – Increased yields among coffee growers supported by the two agriculture projects (PPAP and PACD) <i>Baseline: 540 kg/ha for coffee, 728 kg/ha for cocoa (March 2018)</i> <i>Target: 800 kg/ha for coffee, 1,000 kg/ha for cocoa (2023)</i> – Increased net income among PPAP and PACD-supported smallholder growers <i>Baseline: PGK 2,048 for cocoa, PGK 4,050 for coffee (March 2018)</i> <i>Target: PGK 4,500 for coffee, PGK 3,000 for cocoa (2023)</i> ● Improved smallholder sustainability and resilience, as measured by: <ul style="list-style-type: none"> – Increased number of registered groups and/or cooperatives established and self-sustained in PPAP and PACD areas <i>Baseline: 0 (March 2018)</i> <i>Target: 50 (2023)</i> ● Proportion of farming SMEs with equal or majority ownership by women in PPAP and PACD areas <i>Baseline: 36% (2018)</i> <i>Target: 46% (2023)</i> 	<ul style="list-style-type: none"> ● Improved practices implemented in coffee and cocoa sectors, as measured by the number of hectares of coffee applying improved management practices and the number of hectares of cocoa replanted or rejuvenated with improved planting material and applying improved practices in project areas (evidenced by increases in yield in kilograms per hectare) <i>Baseline: 16,262 for coffee, 10,292 for cocoa (March 2018)</i> <i>Target: 20,000 for coffee and 15,000 for cocoa (2021)</i> ● Increased number of women benefiting from improvements and diversification in production, marketing, and livelihood, including participation in functional literacy/numeracy and nutritional improvements linked to farming-as-a-business and access to marketing with improved road rehabilitation <i>Baseline: 24,084 (March 2018)</i> <i>Target: 35,000 (2021) and 50,000 (2023)</i> ● Increased number of value chains implementing a productive partnership-like model to link smallholder producers to the market and private sector <i>Baseline: 2 (cocoa and coffee) (2018)</i> <i>Target: 5 (2021)</i> ● Increased number of women benefiting from improvements and diversification in production, marketing, and livelihood, including participation in functional literacy/numeracy and nutritional improvements linked to farming-as-a-business and access to marketing with improved road rehabilitation <i>Baseline: 24,084 (March 2018)</i> 	<p><u>Current WB programs:</u></p> <ul style="list-style-type: none"> ● Productive Partnerships in Agriculture (FY2010-19) ● Tourism Development Program <p><u>Current IFC programs:</u></p> <ul style="list-style-type: none"> ● Gulf Transport Route Feasibility for Agricultural Produce ● Starch from Cassava Project with SP Brewery (under preparation) ● PNG Tourism (FY18-20) <p><u>Potential new WB programs:</u></p> <ul style="list-style-type: none"> ● PNG Agriculture Commercialization and Diversification Project <p><u>Potential new IFC programs:</u></p> <ul style="list-style-type: none"> ● Commercialization of the Markam Valley Project (under preparation) ● Tourism: Creating a Domestic Tour Package Market with Air Nuigini

	Target: 35,000 (2021) and 50,000 (2023)	
MTDP III KRA1 Increased revenue and wealth; KRA7 Responsible Sustainable Development		
CPF Objective 3.3: Deepen economic participation of women and youth		
<p>Intervention Logic: PNG’s efforts to reduce poverty and boost shared prosperity through improved economic performance in non-resource sectors are hampered by two key impediments: limited economic opportunities for young people, and gender inequality and gender-based violence. It is estimated that 67 percent of the country’s population is below 35 years of age and about 40 percent under 15 years of age, yet fewer than 10,000 young people enter the formal labor market every year. Among young people aged 15 to 24 in Port Moresby, 29 percent were estimated to be living on less than US\$3.10 per day in 2009/2010, and 31 percent were unemployed. This number is set to increase by more than 50 percent over the next 25 years. Pervasive gender inequities and gender-based violence in PNG have an impact on women’s education and health outcomes, employment opportunities, and political voice and representation, thus holding back half the population from contributing fully to the country’s economic and social development.</p> <p>WBG Support: The WBG will build on the experiences of the IDA-financed Urban Youth Employment Project (UYEP), with a second IDA financed project (UYEPII) to support vulnerable urban youth in targeted urban centers in gaining the work experience, skills, and income they need to contribute to local development and to facilitate their transition to the labor market. This follow-on project will explore the possibility of extending the UYEP’s geographic focus beyond the NCD, given the need to address job creation in other urban centers and to increase local content throughout the economy. The project will pay particular attention to the gender dimensions of its interventions.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<ul style="list-style-type: none"> Percentage of internship graduates who report being employed 12 months after graduation <i>Baseline: 0% (2019)</i> <i>Target: 40%, of which at least 30% are female (2024)</i> 	<ul style="list-style-type: none"> Percentage of UYEP youth who are assessed to have achieved satisfactory performance in the project’s Urban Works and Services subcomponent <i>Baseline: 0% (2019)</i> <i>Target: 80%, of which at least 50% are female (2024)</i> Increased work experience opportunities for young men and women, as measured by the number of UYEP II participants entering the internships scheme <i>Baseline: 0 (2019)</i> <i>Target: 4,300, of which 50% are female (2024)</i> 	<p><u>Current WB programs:</u></p> <ul style="list-style-type: none"> UYEP <p><u>ASA/TA/TFs:</u></p> <ul style="list-style-type: none"> Country Gender Action Plan Potential new gender ASA Pacific Labor Mobility Program <p><u>Potential new WB programs:</u></p> <ul style="list-style-type: none"> UYEPII <p><u>Potential new IFC programs:</u></p> <ul style="list-style-type: none"> TVET program for women in trades Measuring the business case for PNG companies subscribing to the Bel Isi safe house and case management center for victims of FSV EDGE (gender) Certification for NCS & Rhodes Group every two year

Annex 2: Selected Indicators of Bank Portfolio Performance and Management
As of March 28, 2019

Indicator	FY16	FY17	FY18	FY19
Portfolio Assessment				
Number of Projects Under Implementation ^a	6.0	10.0	10.0	10.0
Average Implementation Period (years) ^b	5.2	3.8	4.8	4.7
Percent of Problem Projects by Number ^{a, c}	16.7	10.0	40.0	60.0
Percent of Problem Projects by Amount ^{a, c}	2.6	1.8	61.5	55.5
Percent of Projects at Risk by Number ^{a, d}	50.0	30.0	50.0	60.0
Percent of Projects at Risk by Amount ^{a, d}	67.4	46.5	65.1	55.5
Disbursement Ratio (%) ^e	12.0	17.9	12.6	10.3
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by IEG by Number	41	4
Proj Eval by IEG by Amt (US\$ millions)	827.0	18.3
% of IEG Projects Rated U or HU by Number	45.0	25.0
% of IEG Projects Rated U or HU by Amt	39.0	25.1

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 3: Operations Portfolio (IBRD/IDA and Grants)

Operations Portfolio (IBRD/IDA and Grants)

As of 02/28/2019

Closed Projects	49
<hr/>	
<u>IBRD/IDA*</u>	
Total Disbursed (Active)	307.58
of which has been repaid(1)	0.22
Total Disbursed (Closed)	918.43
of which has been repaid	819.45
Total Disbursed (Active + Closed)	1,226.02
of which has been repaid	819.68
Total Undisbursed (Active)	
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	

Active Projects

Project ID	Project Name	<u>Last PSR</u>			<u>Original Amount in US\$ Millions</u>					<u>Difference Between Expected and Actual Disbursements v/</u>	
		Supervision Rating		Fiscal Year	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P160947	Emergency TB Project	MU	MU	2017	0.0	15.0		0.0	14.0	6.9	0.0
P101578	PG - Energy Sector Development Project	MU	MU	2013	0.0	7.3		0.0	1.8	3.2	1.2
P165717	PNG Development Policy Operation	#	#	2019	0.0	150.0		0.0	0.0	0.0	0.0
P110959	PNG Productive Partnerships in Agr.	MS	MS	2010	0.0	55.0		0.0	14.1	-12.1	15.6
P119471	PNG Road Maintenance & Rehab Project	S	MU	2011	0.0	169.5		0.0	70.4	-41.8	36.9
P120707	PNG - SME Access to Finance Project	MU	MS	2011	0.0	21.9		0.0	7.9	0.0	0.0
P158807	PNG Tourism Sector Development	MS	MU	2017	0.0	20.0		0.0	19.5	3.6	0.0

Annex 3: Operations Portfolio (IBRD/IDA and Grants)

Operations Portfolio (IBRD/IDA and Grants)

As of 02/28/2019

<u>Active Projects</u>		<u>Last PSR</u>			<u>Original Amount in US\$ Millions</u>					<u>Difference Between Expected and Actual</u>	
Project ID	Project Name	Supervision Rating		Fiscal Year	IBRD	IDA	Grants	Cancel.	Undisb.	Disbursements ^a	
		<u>Development Objectives</u>	<u>Implementation Progress</u>							Orig.	Frm Rev'd
P114042	PNG - Urban Youth Employment Project	S	S	2011	0.0	15.8		0.0	0.0	0.8	0.0
P159517	Rural Service Delivery Project	S	MS	2017	0.0	23.0		0.0	22.0	5.3	0.0
P155087	Water Supply and Sanitation Developmer	MS	MU	2017	0.0	70.0		0.0	67.7	18.6	0.0
Overall Result					0.0	547.5		0.0	217.3	-15.3	53.7

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex 4: Statement of IFC Held and Disbursed Portfolio

Committed and Disbursed Outstanding Investment Portfolio

As of 02/28/2019

(In USD Millions)

FY Approval	Company	<u>Committed</u>					<u>Disbursed Outstanding</u>				
		Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
FY10	BSP	0.00	31.91	0.00	0.00	0.00	0.00	31.91	0.00	0.00	0.00
FY14	BSP	8.57	0.00	0.00	0.00	0.00	8.57	0.00	0.00	0.00	0.00
FY16	BSP	30.00	0.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00	0.00
FY10	KK KINGSTON	0.00	3.92	0.00	0.00	0.00	0.00	3.92	0.00	0.00	0.00
FY09	KULA FUND II	0.00	1.65	0.00	0.00	0.00	0.00	0.96	0.00	0.00	0.00
Total Portfolio:		38.57	37.48	0.00	0.00	0.00	38.57	36.79	0.00	0.00	0.00

Annex 5: Summary of Stakeholder Consultations

1. **Stakeholder consultations were held at each stage of the CPF's development.** Regional consultations were held for the PNG SCD in September 2017 in Port Moresby and selected regional centers which provided a strong platform for scoping the interests and views of stakeholders outside of the major population centers. Before the CPF PCN review in August 2018, the Country Office took advantage of a visit to PNG by Senior Director for FCV, Mr Franck Bousquet, in late June 2018 to hold in-depth discussions with senior private sector colleagues on the impact of fragility and violence on investment and business in PNG and the most effective potential areas of engagement for the WBG's over the CPF period. The release of PNG's third Mid-Term Development Plan in September 2018 provided another opportunity to ensure alignment and coherence with national development priorities, which was confirmed through a second round of consultations with Government, civil society, and development partners in October 2018 in Port Moresby; and with the general public through an online survey from October to December 2018.

2. **The October 2018 consultations proved most substantive with strong representation from implementing and central agencies.** The Government of PNG was represented by the Department of Treasury, the Department of National Planning and Monitoring, National Department of Health, Department of Energy, and the Department of Works and Implementation. Following a presentation on the CPF's conceptual framework, PNG's third Mid-Term Development Plan (MTDP III), and the WBG's alignment to the MTDP III, participants formed two working groups and responded to seven questions focused on: alignment with Government priorities, comparative advantages among development partners; addressing the gap between design and implementation in PNG; identifying training that is important for implementing agencies, and how to support implementing agencies better; addressing cutting areas such as governance, gender, climate change and DRM in our projects; how can GoPNG support private sector investment to deliver against the MTDP III and CPF goals; geographical convergence and how to improve the impact of investments, including in vulnerable regions.

3. **Government stakeholders highlighted that the proposed CPF's focus on macro-fiscal resilience, private sector development, and service delivery closely reflected the Government's national planning priorities.** Participants noted that the CPF conceptual framework closely reflected the MTDP III, the National Strategy for Responsible Sustainable Development (StaRS), and the Alotau II Accord. The Department of National Planning noted its support of the Bank's agriculture, transport and health sector investments, although questioned the impact and sustainability of some of the Bank's engagements, for example in youth. All stakeholders noted that agriculture and SMEs should be key priorities for supporting growth in the economy outside of the extractives industries for both government and development partners. Government stakeholders also highlighted that the WBG should ensure institutional linkages and coordination within the portfolio for sustainability, for example, investments in infrastructure should be linked to recurrent budget planning. The group discussed the Government's National Road Network Strategy as an example of ensuring maintenance was planned and appropriated in the National Budget, which the WB has advised on for several years.

4. **Stakeholders from government, civil society and the development community agreed that the WBG should have fewer focus areas of engagement under IDA19 and implement longer term programs.** Portfolio convergence (both geographic and sectoral) would allow the WBG to better focus its resources and build its understanding and relationships in a small number of sectors where it already has operational presence. In this regard, development partners noted the Bank's comparative advantages in macro-fiscal, agriculture, energy, and its important role as a primary partner for the Government in road transport. Throughout the consultations the WBG was encouraged to commit, wherever possible, to long term investments. Government and development partner stakeholders reflected on the long-time horizons required to achieve broad-based institutional change in the PNG context, or see results from operations given the long lead times for mobilization and implementation of new projects. Using a Multiphase Programmatic Approach (MPA) was discussed as a potential future modality to explore.

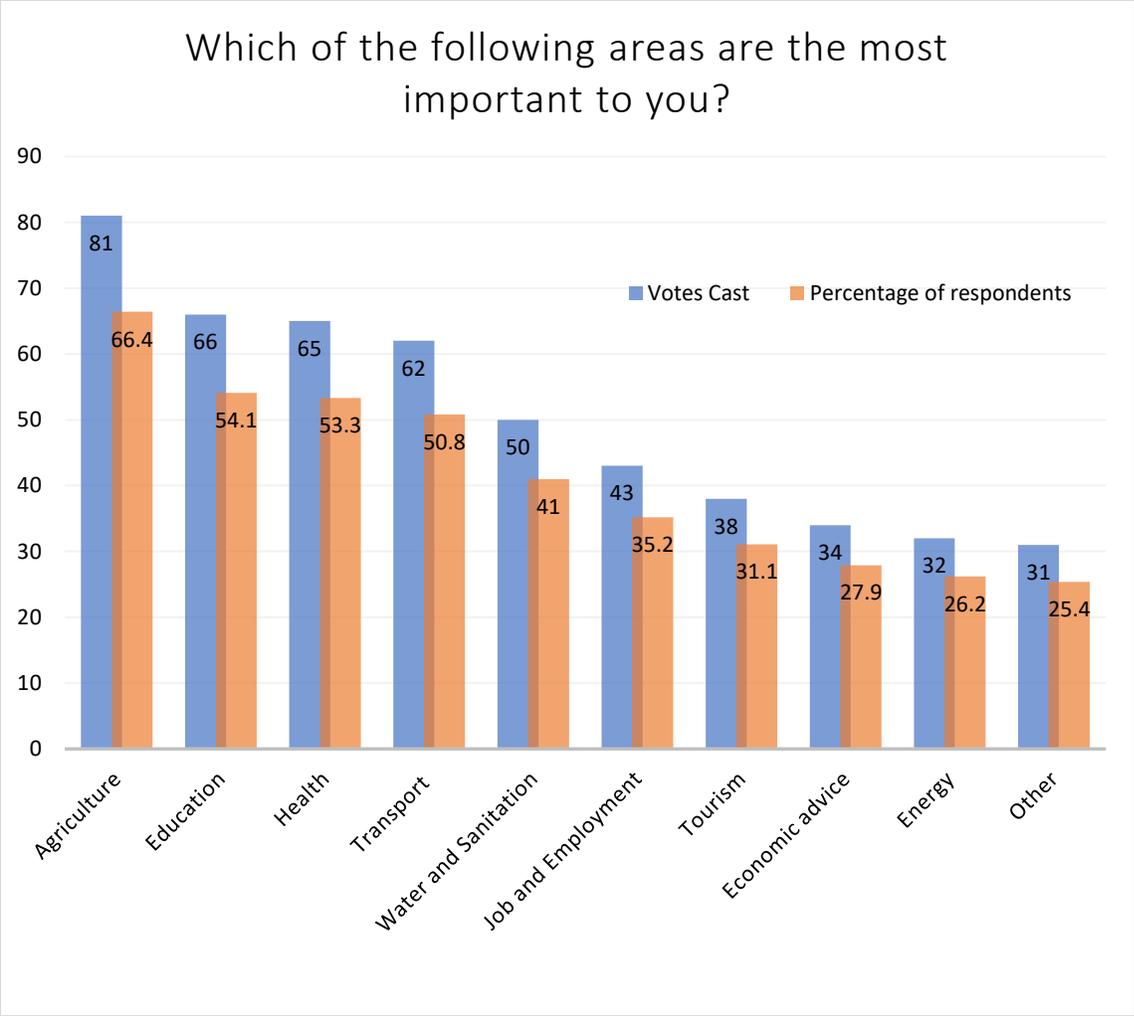
5. **At the operational level government counterparts highlighted the need for greater readiness among project management units (PMUs) for project effectiveness to avoid slow implementation.** This included both recruitment of appropriately skilled individuals, and ensuring units have strong understanding of WB procedures and software platforms, particularly in procurement, before effectiveness. In addition, it was felt that PMUs must incorporate more capacity development and dedicated knowledge transfer into work programs, and that units are more integrated into client departments. More broadly, several participants noted that capacity should be developed at subnational levels, so districts and communities can address their own development needs with the backing of social services provided by the Government. While this feedback was not specific to the WBG, it was noted that the RSDP and PPAP projects were focused on this bottom-up approach. Other operations were encouraged to look for opportunities at local level capacity development.

6. **The proposed CPF private sector focus area resonated with participants who linked support to jobs creation with higher national growth and greater household level wealth.** All stakeholders agreed that the lack of jobs being generated by the PNG economy was a risk for PNG's future economic development and left many school leavers without prospects for full employment. In this context, the WBG was advised to support government efforts at creating more opportunities in rural areas to stop urban drift. Almost all stakeholders noted the opportunity presented by tourism, agriculture, and SME development as areas where the private sector can play an important role for the country's development. The IFC discussed its desire to support agriculture and SME investments in economic corridors that can provide a strong demonstration effect for the rest of the country, and that link large businesses with small holder fresh produce growers. Participants discussed the Bank's PPAP investment and the soon to be restructured SME Finance project as an opportunity to support small scale agri-business in PNG in concert with the IFC. Connected to this, the need for skills development and vocational and technical training of PNG's burgeoning youth population was a common theme in discussions. The private sector highlighted a key role for the WBG setting a positive enabling environment for private sector investment, including energy and transport infrastructure, improving the regulatory environment, and monetary policy. The WBG was seen as having the greatest comparative advantage and mandate to assist reducing the cost of doing business in PNG for investors.

7. **Civil society consultations over this same period highlighted the important contribution the WBG could make to human development in PNG, despite the historical focus on infrastructure and agriculture.** The WBG's success in the information and communications technology sector was raised, as well as the need for gender mainstreaming. The importance of building the Bank's engagement on data collection and analysis in PNG was stressed, including in tourism, energy and health. Greater coordination and commitment among donors to investing in areas 'left behind', it was felt, would mean PNG's development was felt by more of the population. The WBG was encouraged by civil society to work in difficult areas of the country where there are no services provided. On data and the donor mapping, the Department of Planning flagged that a coordination framework was under development to identify relevant parties engaging in each area to assist the data agenda. Finally, the WBG was encouraged to consider its implementation experience, lessons learned and results in future project design.

External Stakeholders Consulted
<p><u>Participants</u></p> <p><i>Government:</i> National Department of Health, Department of Energy, Department of Treasury, the Department of National Planning and Monitoring, and the Department of Works and Implementation.</p> <p><i>Private Sector:</i> Steamships, Swire, Total Energy, ANZ Bank, Westpac Bank, Origin Energy, Exxon, OilSearch Limited, KPMG, BSP Bank.</p> <p><i>NGOs:</i> National Research Institute, Institute of National Affairs, Transparency International, CIMIC.</p> <p>Online: Outreach to public through WB website and Facebook.</p>

8. **Consultations with the general public via an online social media campaign were effective at gauging public opinion, and underscored broad community support for the WBG's proposed investments in productive sectors of the economy, the enabling environment for the private sector, and job creation.** Between 19 December 2018 and 31 January 2019, the World Bank undertook a social media campaign via the World Bank Pacific Facebook page that reached 51,631 people. The campaign included two elements: the first, a structured survey that asked '*What issues would you like to see the World Bank's support to Papua New Guinea focus on for the next five years?*'. The second element provided a more 'open' opportunity for Papua New Guineans to share their views on the WBG, its work and potential investments. The survey saw 504 votes cast by respondents with the following results, highlighting community support for Agriculture, Education, Health and Transport, in particular:



9. **The second, more ‘open’ element – seeking general comments and feedback on the WBG’s work and potential focus areas, again via Facebook – saw overwhelmingly constructive and supportive comments.** Of the 110 comments received, one quarter (25%) emphasized the need for the WBG to engage more actively at the rural community level, with many respondents emphasizing this as important of ensuring WBG’s considerable contribution to PNG achieves effective outcomes. 13% of comments highlighted road transport as an area for the World Bank to increase or strengthen its engagement, followed by Agriculture (9%); Small-Medium Enterprises, Law and Order, Jobs and Employment, Health (5% each); and Water & Sanitation, Strengthening PNG’s public service, Education (4% each). In addition, 12% of comments called on the WBG to support a reduction in corruption in PNG, either through avoiding a traditional ‘top down’ approach to projects, reducing direct payments/transfers to government budgets, or by strengthening accountability through World Bank systems and processes.

Annex 6: Donor Engagement in Papua New Guinea

Draft CPF Objective	Sector	WBG	ADB	Australia	Japan	New Zealand	EU	UNDP	UNICEF	UNFPA	UN Women	WHO
Focus Area 1. Improved Macro and Fiscal Resilience	Macro-fiscal	x	x	x	x							
	Governance & PFM	x	x	x		x	x	x				
	Mining	x		x								
Focus Area 2. Encourage private sector growth and job creation particularly in the non-resource sector	Aviation		x	x	x							
	Agri., Fish., and Forestry	x		x		x	x					
	Tourism	x										
	Youth	x										
Focus Area 3. More effective and inclusive service delivery particularly in underserved areas	Education			x	x				x			
	Climate Change/DRR			x	x			x				
	Transport	x	x	x	x							
	Energy	x	x	x		x						
	Telecommunications			x								
	Health	x	x	x	x				x	x		x
	WASH	x			x		x		x			x
Rural Development	x		x									
Other	Gender Equality	x		x		x					x	
	Humanitarian			x	x			x	x			x
	Justice & Policing			x		x						
	Peace Building							x				
	Environment			x	x			x				

Australia represents the largest bi-lateral source of Official Development Assistance (ODA) to PNG, providing more than two thirds of DAC bilateral overseas aid annually. The Australian Government will provide an estimated \$572.2 million in total ODA to PNG in 2018-19. This includes an estimated \$519.5 million in bilateral funding to PNG managed by the Department of Foreign Affairs and Trade (DFAT). The Australian Government contribution to development in PNG is valued at approximately 68 per cent of total Official Development Assistance (2015/16) and represents around 8 per cent of the National Budget, down from 40 per cent at Independence in 1975. Australia delivers 68 per cent of its portfolio through commercial suppliers, 15 per cent through multilateral partners, and 11 per cent through partner systems. Australia's program focuses on three strategic objectives as outlined in the Aid Investment Plan (AIP) for 2015–16 to 2018–19: Promoting effective governance; Enabling economic growth; and Enhancing human development. As a cross-cutting issue, all programs will effectively integrate gender equality.

The Asian Development Bank (ADB). The ADB Country Operations and Business Plan (COBP), 2019–2021 focuses on the five priority areas of the CPS: (i) transport, (ii) energy, (iii) health, (iv) water and other urban infrastructure and services, and (v) public sector management. The COBP sits underneath the Country Partnership Strategy (CPS) for 2016-2020 which prioritizes support to PNG's economic infrastructure and barriers to job and business creation. ADB's portfolio focuses on upgrading national transport networks (road, maritime and aviation) to support market access and rural economic development. The ADB's Sustainable Highlands Highway Investment Program is a multi-tranche financing facility (MFF) valued at roughly US\$1 billion with \$680 million funded by the ADB. The project is expecting to attract roughly \$186.5 million from other development partners and government co-contributions. The 1,200-kilometer (km) long Highlands Highway is PNG's main economic thoroughfare connecting the Highlands region's 3 million people, and 1,800 km of regional and feeder roads, with the coast. In addition to the road transport program, the ADB has approved a US\$300 million budget support program with prior actions in the health sector; and is designing further MFF's in road and aviation transport and energy. ADB has increased its total financing (lending, nonlending, and financing) by 125%, from \$743.7 million (2016-2018) to \$1,668.4 million (2017-2019).

Japan has provided ODA assistance to PNG since 1974. Japan's current Country Assistance Policy for PNG focuses on three sectors: strengthening the economic growth base; improving social services; and the environment and climate change. Japan has disbursed roughly US\$1.7 billion since 1974 and maintains an active concessional loan portfolio of approximately US\$397 million for three infrastructure projects in waste management (Port Moresby Sewerage System Upgrading Project 2010-2018, airport redevelopment, (Nadzab Airport Redevelopment Project) and electricity transmission (Ramu Transmission System Reinforcement Project 2013-2018). Areas of collaboration between the World Bank and the Japan International Cooperation Agency (JICA) include tourism; road transport; WASH; energy; health; and extractives. Japan also maintains a technical advisory program in education focused on improvement teaching materials and improving the quality of mathematics and science educational outcomes. Japan has a major energy relationship with PNG, having secured 50% of PNG's LNG exports on a 20-year contract.

New Zealand will provide approximately US\$76 million in grant ODA support to PNG between 2018-2021. PNG is New Zealand's single largest bi-lateral assistance partner for New Zealand in

2018-19 with a forecast ODA investment of US\$34.4 million. New Zealand's development program is focused on expanding access to affordable, reliable and clean energy; increasing economic and food security benefits from agriculture; strengthening law and justice systems (including community policing in Bougainville); and economic governance. New Zealand's energy investments will provide electricity to 10,600 rural households and approximately 53,000 people. In 2019 New Zealand and PNG will agree on a new Joint Commitment for Development which will identify future priority areas of engagement and funding support. Given the timing of this strategy development, New Zealand remained an active partner for the World Bank during consultations on the CPF.

The European Union. The EC's Country Strategy Paper for Papua New Guinea (2008-13) presented a multi-year indicative program of support under the tenth European Development Fund (EDF 10) valued at €142.3 million. The National Multiannual Indicative Programme for PNG 2014 - 2020 under EDF 11 outlines the European Commission's priorities in PNG as Rural Entrepreneurship, Investment and Trade; Water, Sanitation and Hygiene (WASH); and Good Governance and Policy Reforms. The largest single project financed by the European Union in PNG and in the Pacific region: 'Support to Rural Entrepreneurship, Investment and Trade in Papua New Guinea (STREIT PNG)' was approved in November 2018 and will increase sustainable and inclusive economic development in rural areas in PNG through the development of value chains in cocoa, vanilla and fisheries in the Momase region. The program, valued at €85 million, will link economic infrastructure such as transport and energy with capacity development, financing, training, market access, trade and other value chain support services for commodities. Other projects under EDF 11 include support to the implementation of PNG WaSH policy (€23.1 million) currently implemented by UNICEF and a €9 million support to the DNPM. The EU and PNG signed an Economic Partnership agreement in 2011 and PNG enjoys duty and quota-free exports into the EU, having also opened up its market to 88% of EU imports following ascension to the agreement. The EC is co-financing the World Bank's PNG Productive Partnerships in Agriculture (P110959) project and works closely with the World Bank in the WASH sector.

The United Nations. The United Nations Development Assistance Framework serves as a basis for all of the UN's work in PNG between 2018-2022. Aligning with the SDGs the UN's work in PNG is divided into four clusters: Inclusive Human Development & Equitable Services (People); Sustainable management of natural resources, biodiversity, conservation, climate & disaster resilience (Planet); Inclusive & Sustainable Growth (Prosperity), and Promoting Inclusive, Governance, Justice & Peace (Peace). Under the Framework, the UNDP Resident Mission to PNG has five priority areas: Poverty reduction; Democratic governance; Crisis prevention and recovery; Environment, climate and energy; and Women's empowerment. This work is implemented across two portfolios: Environment, energy and climate change (65% of portfolio value); and Governance and peace building (35%). Bougainville sits under the governance portfolio. The total UNDP portfolio to PNG is valued at approximately USD \$45 million. The UNDP was awarded US\$1.5 million from the UN Peacebuilding Support Office in November 2018 for 'Strengthening the role of Women and Youth as Peace Builders to improve Development in the Highlands of Papua New Guinea,' The UN is active in dialogue with the Government on disaster risk reduction and preparedness, and crisis prevention and fragility in the Highlands Region.

China. The Chinese Government's development assistance to PNG is provided under three modalities: concessional and commercial loans, grant assistance and technical cooperation projects. It is estimated that Chinese loan financing to PNG stands at approximately PGK4.689 billion; with PGK233.4 million provided in grant project financing, and PGK26 million for technical cooperation. Recent analysis⁴⁶ suggests official Chinese development related investment in PNG between 2006-2016 is valued at US\$632.46 million across 27 projects, primarily in the transport (28.7%), education (18%), and industrial, extractives and construction (16%) sectors. Concessional loans are said to make up 90 percent of Chinese development related investments in PNG. Currently the largest Chinese investment in PNG is the Ramu Nico mine in Madang Province, valued at US\$1.6 billion. In the health sector China has partnered with PNG and Australia in malaria control in the National Capital District and Madang provinces valued at US\$0.7 million, along with other donations of anti-malarial drugs.

⁴⁶ Lowy Institute 'Chinese Aid in the Pacific 2006-2016' (2018):
http://www.lowyinstitute.org/sites/default/files/chinese_aid_in_the_pacific_png_snapshot_0.pdf

Annex 7: PAPUA NEW GUINEA COUNTRY PARTNERSHIP STRATEGY FOR FY2013–2018 COMPLETION AND LEARNING REVIEW

CPS Board Discussion:	November 8, 2012
CPS Performance and Learning Review:	July 1, 2016
Period Covered by the CLR	FY2012–FY2018

I. Introduction and Summary of Key Findings

A. Introduction

1. **This Completion and Learning Review (CLR) evaluates World Bank Group (WBG) performance in implementing the Country Partnership Strategy (CPS) for the Independent State of Papua New Guinea (PNG) for the period FY2013–FY2016.** Following the preparation of a Performance and Learning Review (PLR) in July 2016, the CPS period was extended by two years, through FY2018, to allow sufficient time to engage with the new government following national elections in June–July 2017 and to align the follow-on Country Partnership Framework (CPF) with the government’s development planning cycle. Based on a review of the operational support, technical assistance, and knowledge and coordination services provided by the WBG under the CPS,⁴⁷ this CLR assesses the extent to which expected outcomes were achieved, evaluates the WBG’s performance in designing and implementing CPS programs, and draws lessons for the preparation of the forthcoming CPF for FY2019–FY2023.

2. **The PLR assessed the WBG’s interim performance on CPS implementation as mixed.** Problems with the relevance and monitoring of some outcome indicators had made it difficult to accurately track progress toward CPS outcomes. In response, the PLR made several revisions to the CPS results matrix to strengthen its measurability, accuracy, and links to ongoing, regularly monitored interventions in PNG. This CLR evaluates performance on the basis of the revised results framework.

B. Summary of Evaluation and Ratings

3. **Overall, the CPS development outcome is rated Moderately Satisfactory.** This rating is based on the country team’s self-evaluation (Attachment 1), an aggregate assessment of achievements made under the three CPS pillars and the outcomes and indicators set out in the CPS results framework as amended in the PLR. Of 23 outcome indicators,⁴⁸ just under 70 percent were achieved or mostly achieved by the end of the CPS period (Table 1). In supporting the country’s development goals, the CPS identified the WBG’s core objective as “assistance to improve the

⁴⁷ Sources for this report include interviews with WBG staff, as well as implementation status and results reports, implementation completion reports, mid-term reviews, aide memoires, and other self-evaluations prepared by the country team.

⁴⁸ The updated CPS Results Matrix included in the PLR mistakenly included an outcome on “training of oil palm growers in sustainable production practices” that had been dropped in the PLR because it was not being actively tracked; it was replaced instead with an indicator measuring the number of female beneficiaries of the Productive Partnerships in Agriculture Project. This CLR does not, therefore, include this outcome in its ratings calculations.

quality of investments and the efficiency and effectiveness of public service delivery, and investment capital to accelerate diversification and job creation.” Importantly, the CPS sought to prioritize gender equality as “smart economics,” focusing on interventions that would address barriers to women’s economic participation in PNG and seeking out activities and project design elements that would deliver a disproportionately positive impact on women and girls. Focusing on the WBG’s role in leveraging private investment, the CPS also identified a niche role for the WBG in “catalyzing innovations and pilots for a ‘triple bottom line’ approach to sustainability (incorporating economic, social, and environmental considerations), and in leveraging financing and influencing programming of a diverse range of partners.”

4. **The WBG’s performance in designing and implementing the CPS is rated Good.** The CPS was aligned with key government strategy documents, including Vision 2050, the PNG Development Strategic Plan 2010–2030, and the Medium-Term Development Plan (MTDP) 2011–2016, and buttressed by two separate rounds of stakeholder consultations with policy makers, implementing agencies, the private sector, and civil society throughout the country. While selectivity and consolidation improved under the CPS, delays associated with capacity constraints continued to require strategic selection of program areas, simplified project design, and careful calibration of results frameworks. Drawing on lessons learned during implementation of the WBG’s previous Country Assistance Strategy in PNG, the CPS identified a modest selection of results, focusing on outcomes expected from projects that were already active or at a high level of implementation readiness. Changes to the results framework introduced at the PLR stage significantly improved the relevance and measurability of CPS outcomes and indicators.

5. **Although the CPS was prepared before the articulation of the WBG’s twin goals of eliminating extreme poverty and boosting shared prosperity, the WBG’s engagement in PNG over the CPS period was closely linked to WBG corporate goals in alignment with the government’s own development planning objectives.** In terms of boosting shared prosperity, for example, the Productive Partnership in Agriculture Project (PPAP), the Second Road Maintenance and Rehabilitation Project (RMRPII), and the Small and Medium Enterprise (SME) Access to Finance Project all successfully delivered activities focused on women’s economic empowerment over the CPS period. In addition, the PNG CPS supported the economic empowerment of youth via the Urban Youth Employment Project (UYEP).

II. Assessment of CPS Program Performance

6. **Based on the assessment of achievements under the three CPS pillars (Attachment 1), the overall CPS development outcome is rated Moderately Satisfactory.** Across the three pillars of the WBG’s engagement in PNG, just under 70 percent of targets (16 out of 23 indicators) were achieved or mostly achieved by the end of the CPS period (Table 1). Fewer than one-fifth (17 percent, or four of 23 indicators) were not achieved. This evaluation is based on the updated results matrix, which was revised during the PLR to evaluate the CPS program. A detailed review of performance by each CPS outcome is found in Attachment 1.

7. **While the overall CPS development outcome is rated Moderately Satisfactory, project implementation has proven to be challenging.** At the end of the CPS period (June 30, 2018), the PNG portfolio had four problem projects and one potential problem project (which was subsequently downgraded). By January 2019, there were seven problem projects in the portfolio;

however, a project was moved out of problem status in mid-February 2019. In a context of institutional and social fragility, implementation challenges were experienced in projects where the government was unable to provide strong ownership of the project; where project management units (PMUs) were not established in a timely manner or had limited capacity or awareness of WBG procedures; or where central or implementing agencies experienced weak capacity for financial management, auditing, and safeguards. Many of these challenges were compounded by slow public procurement processes. The CLR lessons learned section examines these challenges, and the way they are being addressed, in greater detail.

Table 1: Development Outcome Rating by CPS Pillar (to June 2018)

CPS Outcome	Overall Outcome Rating	Outcome Indicator Ratings			
		Achieved	Mostly Achieved/ On Track	Partially Achieved	Not Achieved/ Not Verified
Pillar 1: Increased and more gender-equitable access to inclusive physical and financial infrastructure:					
Moderately Satisfactory					
1.1 Road Rehabilitation	Achieved	2			
1.2 Information and Communications Technology Policy	Achieved	2			
1.3 Financial Sector	Achieved	2			
1.4 Renewable Energy	Not Achieved				1
1.5 Water Access	Not Achieved				1
Pillar 2: Gender-equitable improvements in lives and livelihoods:					
Moderately Satisfactory					
2.1 Agriculture and Rural Development	Mostly Achieved	2	1	1	
2.2 Youth Development	Achieved	3			
2.3 Business-Enabling Environment	Mostly Achieved	2			1
Pillar 3: Increasingly prudent management of revenues and benefits:					
Moderately Satisfactory					
3.1 Extractives Sector	Partially Achieved			1	1
3.2 Rural Service Delivery	Mostly Achieved	1		1	
3.3 Macroeconomic Management	Achieved	1			
Overall Outcome Rating		15	1	3	4
Percentage of each rating level		65%	4%	13%	17%

A. Pillar 1: Increased and More Gender-Equitable Access to Inclusive Physical and Financial Infrastructure

Rating: Moderately Satisfactory

8. **Progress toward infrastructure outcomes was generally positive, with three out of five envisaged outcomes achieved by the end of the extended CPS period.** Under this pillar, the CPS focused on providing increased access to inclusive physical and financial infrastructure in ways that benefit women and girls as well as men and boys. This pillar focused initially on: (i) road rehabilitation; (ii) information and communications technology (ICT) policy; (iii) the financial sector; and (iv) renewable energy. A fifth focus area on water access was added at the PLR stage to reflect plans under a new project in the sector.

Outcome 1.1: Road rehabilitation

9. **The CPS outcome on road rehabilitation was achieved.** Under RMRPII, 129.4 km of roads were rehabilitated to June 30, 2018, as compared to the target of 125 km, as revised under the PLR. Women have worked a total of 8,912 days on activities not related to routine maintenance in the three years to June 2018, according to the June 2018 RMRPII progress report, thus exceeding CPS targets.

Outcome 1.2: ICT policy

10. **The CPS outcome on ICT policy has been achieved.** Mobile services penetration in targeted provinces grew markedly from 31 percent in 2009 to 65 percent by June 30, 2018 (exceeding the target of 55 percent), and Internet usage in targeted rural communities expanded by 50 percent (against a targeted increase of 30 percent) with support from the Rural Communications project.

Outcome 1.3: Financial sector

11. **The CPS outcome on the financial sector has been achieved.** The financial sector made strides in expanding the availability of credit, as Bank South Pacific (BSP) committed to PGK 492 million in credits under the Risk Share Facility (going beyond the CPS goal of PGK 300 million) and made a fivefold increase in lending to women-owned businesses. This is a good example of how IDA funding can be leveraged to facilitate IFC investments into new markets, pre-dating recent efforts to promote Maximizing Finance for Development approaches and the creation of new markets. It highlighted, however, the challenges that even relatively strong sponsors in the Pacific like BSP have in managing reporting requirements. On the basis of the lessons learned from the SME financing pilot program the Government of PNG has decided to develop: (1) a national credit guarantee scheme to expand SME finance with the private sector, and (2) an SME Acceleration Program for capacity building and alternative financing for start-ups. Furthermore, the government developed and endorsed a Financial Sector Development Strategy for the next five years, with World Bank support, with coordination and implementation led by Bank of PNG (central bank) and the Department of Treasury. While not included in the results framework, the IFC's 'Three Bank Model' of concurrently working with the three major domestic banks on mobile banking - BSP, Westpac, and ANZ - reached over 650,000 customers.

Outcome 1.4: Renewable energy

12. **The CPS outcome on renewable energy was not achieved.** To help put in place the building blocks for a greater focus on renewable energy resources, the WBG provided technical assistance for the development of the Naoro Brown Hydropower Project. Approval of a cabinet paper on the project was received in April 2018, paving the way for the preparation of the project's marketing and tendering phases. While this marks a positive development, the government did not succeed in taking a medium-to-large renewable energy public-private partnership to financial close before the end of the CPS period.

Outcome 1.5: Water access

13. **The CPS outcome on water access has not been achieved owing to late approval of the new Water Supply and Sanitation Development project.** Although the project became effective in August 2017, the establishment of the PMU in the implementing agency, the Department of National Planning and Monitoring (DNPM), has been slow due to a lack of clarity on the role of the PMU vis-à-vis regular DNPM staff. Procurement is under way for key water infrastructure implementation contracts, but expected outcomes were not realized before the end of the CPS period.

B. Pillar 2: Gender-Equitable Improvements in Lives and Livelihoods

Rating: Moderately Satisfactory

14. **Progress toward livelihood outcomes was good overall, with all three envisaged outcomes achieved or mostly achieved by the end of the extended CPS period.** Under this pillar, the CPS aimed to contribute to improvements in the quality of life and livelihoods of women and girls as well as men and boys. This pillar focused on: (i) agriculture and rural development; (ii) youth development; and (iii) the business-enabling environment.

Outcome 2.1: Agriculture and rural development

15. **The CPS outcome on agriculture and rural development was mostly achieved.** As of June 29, 2018, the PPAP has supported 67,340 beneficiaries, of which 24,852 were women, and increased the net income of smallholder coffee and cocoa growers by 40 percent. In addition, targeted increases in cocoa yields for project participants have been achieved. Targets on increasing coffee yields and improving smallholder sustainability and resilience through project outreach to beneficiaries, including women, were mostly achieved. Progress on rehabilitation of rural roads in project areas was delayed by insufficient engineering support available to the PMU and by delays in the assessment and award of contracts by the Central Supply and Tenders Board (CSTB). While close supervision and implementation support from the World Bank and DoW allowed all contracts to be signed and rehabilitation work undertaken, lessons from PPAP must be used to allow the proposed PACD under preparation to be more efficient in rehabilitating additional feeder roads that help smallholder farmers better link to markets and reduce their transport costs. It is therefore proposed to transfer the civil works procurement process to the Department of Works (DoW) for future rural roads. This will better utilize DoW's internal engineering capacity and benefit from DoW's close engagement with CSTB. Several positive examples of partnership with the government were observed during the CPS period; on the Gazelle District road, for example, the project's investment in 5 km was complemented by district government funding to complete the remaining 3 km. As a result of this road work, transport costs have been reduced from PGK 50 to PGK 20 (US\$7) per bag, allowing coffee producers in some partnership communities to retain substantial value. Some new research on climate change and disaster risks in the agriculture sector was supported under the El Niño Response Trust Fund.

Outcome 2.2: Youth development

16. **The CPS outcome on youth development has been achieved.** Initiatives in the youth sector exceeded expectations, surpassing targets on youth workforce, employment of on-the-job

program graduates, and the share of women graduating from each component of the Urban Youth Employment Project.

Outcome 2.3: Business-enabling environment

17. **The CPS outcome on the business-enabling environment was mostly achieved.** Under the original CPS, PNG's 2018 result of 41 days to start a business would have represented an achievement of the target (which was 45 days, down from a baseline of 51). To reflect an apparent change in the Doing Business methodology, the original baseline and target were amended in the PLR, to 35 days and 10 days, respectively. However, the new methodology was not adopted in the subsequent Doing Business report, so results have been assessed against the original indicator and target, which have been achieved.

18. **Despite challenges in measuring progress toward the specific business-enabling environment targets outlined in the CPS results framework, PNG has made progress in strengthening the private sector environment in other areas.** IFC's PNG Regulatory Simplification and Investment Policy and Promotion Project was approved in 2009 and completed in September 2015. This multi-component advisory services project helped revive the National Working Group on Impediments to Business and Investment in PNG, chaired jointly by the Chief Secretary to Government and the President of the Business Council of PNG, and provided secretariat assistance. With technical support from IFC, an electronic business registry was launched in late 2013 and became fully operational as an online registry in early 2015. IFC assisted the Investment Promotion Authority (IPA) in reforming the PNG Companies Act and associated regulations to facilitate the implementation of the registry and simplify the business registration process. With the aim of reducing the time and cost required to resolve commercial disputes in PNG, IFC helped the National Court to put in place mediation rules, developed an administrative practice for mediation, and supported training of mediators and awareness raising for legal practitioners and the business community. The successful mediation program was split off into a different project, the PNG Alternative Dispute Resolution Project, and resulted in the release of funds totaling US\$37.5 million through mediations conducted during the project. Although the PNG Regulatory Simplification and Investment Policy and Promotion Project achieved results in some key areas, it was rated largely unsuccessful as a result of its failure to achieve results in business licensing and investment policy reform.

19. **IFC worked with the Internal Revenue Commission and the Department of the Treasury to review the business tax regime affecting SMEs.** The PNG SME Tax Project provided support to the government's tax review and supported the Internal Revenue Commission in developing a risk assessment system for SMEs. The project is now managed by the Governance Global Practice of the International Bank for Reconstruction and Development (IBRD) and is examining options for simplifying the reporting requirements for small businesses in PNG to reduce the cost and time required to file taxes.

20. **The Tourism Sector Development Project, proposed under the PLR, was approved by the WBG's Board of Executive Directors in June 2017 and provides an excellent example of WB-IFC coordination under the One WBG approach.** While the project did not impact the results framework for the CLR, the project seeks to leverage opportunities for tourism development in the high-potential provinces of East New Britain and Milne Bay through: (i)

stronger and better-coordinated institutional and policy frameworks for tourism development across levels of government; and (ii) improved/rehabilitated small-scale infrastructure at the most attractive tourism sites, as well as the promotion of tourism products, and experiences. The project will leverage IFC's relationships with cruise lines and inbound operators, as well as their initiatives to develop more inclusive investments. IFC completed and disseminated an Assessment of the Economic Impact of Cruise Tourism in PNG and the Solomon Islands in 2016.

C. Pillar 3: Increasingly Prudent Management of Revenues and Benefits

Rating: Moderately Satisfactory

21. **Progress toward revenue and benefit management outcomes was moderate, with two of three envisaged outcomes achieved or mostly achieved by the end of the extended CPS period.** Under this pillar, the CPS aimed to sustain support to the prudent and increasingly inclusive management of revenues and benefit streams at the national and community levels. This pillar focused on: (i) the extractives sector; (ii) rural service delivery; and (iii) macroeconomic management.

Outcome 3.1: Extractives sector

22. **The CPS outcome on the extractives sector has been partially achieved, and progress continues to be steady.** PNG is on track to gain full membership in the Extractive Industries Transparency Initiative (EITI) following a validation of the country's compliance with EITI requirements, which commenced in April 2018 and runs until an extended deadline of April 2020. In parallel, the WBG has supported capacity building workshops for civil society organizations in three provinces to support public participation in the EITI process. Agreements on women's representation and participation have been discussed with government stakeholders and included in the draft Mining Act, which is currently under review.

Outcome 3.2: Rural service delivery

23. **The CPS outcome on rural service delivery has been mostly achieved.** Targets on the implementation of community subprojects and the related number of beneficiaries under the Rural Service Delivery and Local Governance Project were exceeded. Under this project, 61,885 persons, including 28,235 women, have benefitted from community development subprojects in Central and Western Provinces. This model for subnational service delivery will be scaled up under the Rural Service Delivery Project, which became effective in September 2017. Similar targets under the Inclusive Development in Bougainville Project (IDIB) have advanced despite extended delays. So far, completed subprojects have benefitted 51,642 people, including 24,738 women, in Bougainville. Targets on the implementation of community subprojects under IDIB have been mostly completed, although targets on the number of project beneficiaries, included women, have fallen short.

Outcome 3.3: Macroeconomic management

24. **The CPS outcome on macroeconomic management has been achieved.** The Department of Treasury's medium-term debt strategy document (2018–2022) employed elements of the WBG-IMF debt sustainability framework, and the Fiscal Responsibility Act was amended

to incorporate targeting of the non-resource primary fiscal balance as fiscal anchor over the medium term. Discussions on the establishment of a Sovereign Wealth Fund took place in 2017, with a mission from the WBG Treasury holding high-level meetings with the Bank of PNG and Treasury. The mission was informed that prevailing fiscal pressures will make the fund's establishment difficult over the short term.

D. Cross-cutting Theme: Gender Equality

25. **In support of the government's expressed priority, the CPS adopted a strong focus on gender equality to level the playing field between men and women in Papua New Guinea.** To reflect the WBG Gender Strategy (FY2016–2023), gender-related needs were embedded in the three pillars of the CPS to deliver a broad, inclusive development agenda. Throughout the lending portfolio, measures aimed at gender mainstreaming have improved consistently and steadily over the five fiscal years of the CPS period, with the proportion of projects incorporating gender-informed design and reporting (either originally or during mid-stream adjustments, having risen from 60 percent during FY2013 to 69 percent during FY2017.

26. **Three of the 24 projects active within the CPS period specifically targeted women, focusing on social and economic empowerment.** These were the IDIB, the Social and Economic Empowerment for Women in Mining and Petroleum Areas, and the Addressing FSV in Extractive Industry Areas projects. Of the 21 remaining projects, indicators related to women's access and participation were incorporated in nine projects with gender-specific targets. These indicators included: (i) gender-equitable access to resources/services; (ii) increasing the number of women in local decision making; (iii) skills training and employment opportunities; and (iv) gender and client sensitivity among frontline service providers for family and sexual violence.

27. **Implementation of rural development and urban employment projects made significant contributions toward empowering women in PNG.** The Urban Youth Employment Project increased opportunities for young women in urban areas to access basic life skills and employment opportunities. The Rural Service Delivery and Local Governance Project enabled women in rural communities to actively participate in, and lead, community planning and decision-making processes. These projects represented new delivery models for the WBG in PNG and delivered notable results, which led the government to request that both projects be scaled up to other areas in PNG. IDIB has contributed to improving women's participation in decision making. Out of a total of 42 female officials elected in the 2017 local-level government elections in Bougainville, 17 were from women's groups that took part in the project.

28. **IFC's gender interventions in PNG focused on improving economic empowerment of women in business, at both the firm and industry level.** At the *firm level*, IFC sought to promote women's migration to formal sector employment. IFC conducted a gender diagnostic of NCS Holdings Ltd.'s⁴⁹ business operations and practices. The findings identified a range of human resources policies and workplace practices that could be strengthened to enable the company to better recruit, retain, and promote female employees. NCS Holdings Ltd. worked with IFC to strengthen its practices and processes and with IFC support became the first EDGE gender equality-certified PNG company. At the *industry level*, IFC's aim has been to engage the private

⁴⁹ NCS Holdings Ltd., known initially Niolam Catering Services, is a facilities management and catering company based in Port Moresby.

sector in driving positive change for women in PNG as a means to broaden the overall development impact of the private sector in PNG. Established in 2014 as an IFC initiative funded by the Australian Government, the PNG Business Coalition for Women (BCWF) is a forum for peer-to-peer learning and a platform for public-private dialogue. With 70 member businesses in PNG, the BCWF facilitates connections between businesses to demonstrate—through policy, practice, and profit—that women’s economic empowerment is smart economics. IFC provided technical support and managed a performance grant to BCWF during 2014–2017 and is now working with the Australian government to develop selective, ongoing support for BCWF.

29. **The RMRPII set ambitious targets in the design and implementation of a monitoring framework focused on integrating gender-disaggregated employment indicators across all subprojects.** By June 30, 2018, project activities (not related to routine maintenance) had created 8,912 person-days of work completed by women. With works commencing under a performance-based maintenance contract for the Hiritano in August 2018, the number of person-days worked by women in project-related routine road maintenance activities is expected to continue increasing. In addition, the project has held 52 awareness workshops to combat the spread of HIV/AIDS and gender-based violence in communities surrounding project sites.

Cross-cutting Theme: Drivers of Conflict

30. **The key drivers of conflict in PNG remained relevant across the portfolio over the CPS period.** These drivers were identified in the CPS as: (i) social fragmentation; (ii) extreme power imbalances between men and women; (iii) competition for land; (iv) the capture of public sector positions by interests along family, clan, and ethnic lines; (v) intergenerational conflict; and (vi) the challenges faced by institutions in effectively managing the stresses arising from social and economic changes.

31. **Between FY2011 and FY2016, during the preparation and early implementation of the CPS, PNG was not on the WBG’s Harmonized List of Fragile Situations, but it rejoined the list in FY2017 and FY2018.** Achieving the WBG’s twin goals in PNG will require an in-depth appreciation of fragility and conflict in the country, including: (i) measures of latent tension (such as inequality, ethnic and linguistic fragmentation, and past conflict); (ii) institutions to manage tensions (such as governance and rule of law); and (iii) monitoring of shocks (such as growth shortfalls, changes in the terms of trade, natural disasters, social violence, and the continuation of subnational or cross-border conflicts in neighboring countries) and mitigation of their potential impact, particularly among poor and disadvantaged groups. A Risk and Resilience Assessment informed the preparation of the next CPF and analyzed potential drivers of conflict in PNG.

III. Assessment of World Bank Group Performance

A. Design of the CPS Program

Rating: Good

32. **Relevance.** The extension of the CPS period by two years under the PLR allowed for better alignment with the government’s development planning cycle. In March 2015, the

government published its second Medium-Term Development Plan (MTDP2) for 2016–2017. The MTDP2 was limited to two years to align the country’s development planning process with the five-year parliamentary cycle. WBG programming during the MTDP2 period reflected a large number of key government objectives, including increasing the participation of citizens in SME business activities; supporting smallholder growers, including by leveraging support from established larger-scale agricultural enterprises; and implementing priority road infrastructure, water, sanitation and hygiene, electricity, and ICT activities, including mobile banking.

33. ***Design. The design of the CPS was closely aligned with the priorities outlined in the government’s key strategic planning documents.*** In designing the CPS, the Bank sought to align with government priorities; prepare engagements where it had a distinct comparative advantage and analytical experience (for example, road rehabilitation, agriculture, community-driven development, energy, education, and revenue mobilization). IFC advisory and investment activities were in line with the government’s focus on improving the business environment and promoting SMEs. Under the umbrella of Vision 2050 and the PNG Development Strategic Plan 2010–2030, the CPS pillars reflected the four key policy objectives of the MTDP for 2011–2015:

- (i) sustaining prudent fiscal and macro management;
- (ii) nurturing the development of entrepreneurial culture and a vibrant business environment;
- (iii) reversing the regressive conditions of human development; and
- (iv) supporting “key enablers” such as transport infrastructure, key utilities, education, health, unlocking land for development, law and order.

34. ***Instruments. The blend of Investment Project Financing and ASA instruments employed by the WBG in PNG during the CPS period was well calibrated to client implementation capacity, and client understanding of WBG programming.*** Reflecting lessons learned under the previous Country Assistance Strategy, the CPS undertook to employ a variety of approaches to sector engagement. These included a range of instruments that could be adjusted to adapt to the varying speeds of client engagement. At the government’s request, the Bank with the IMF commenced a high-level dialogue on a macroeconomic policy reform program, leading to approval in October 2018 (immediately after the CPS period) of the first development policy operation (DPO) in PNG.

35. ***The World Bank’s ASA program over the CPS period supported a combination of policy dialogue, and technical assistance.*** During the CPS period, the Bank delivered 23 ASA and TA products. Notable ASA engagements included the multiyear Programmatic Advisory Services and Analytics program (FY15–18) which improved health financing sustainability by providing technical assistance for strengthening public financial management in the National Department of Health (NDoH). The Bank’s macro-fiscal engagement, starting with PNG Economic Briefings (FY13-FY14), returned in FY17 with a well-received Economic Update in December 2017. This was complemented by the PNG - Debt Management Strategy and Sustainability study, endorsed in July 2017. Both these ASA engagements informed lending operations and the country’s first Development Policy Operation in October 2018. Similarly, in agriculture the Fruits of Her Labor (completed June 2014) and the PNG Agriculture Notes (completed 2017) provided the client with valuable insights on the agricultural sector.

36. **Realism of results. The PLR sought to recalibrate several results indicators to strengthen the links between CPS outcomes and indicators and those being monitored under ongoing project interventions.** Of the 23 original outcome indicators, 11 were revised to improve measurement, attribution, and clarity; four were dropped and replaced with indicators that would more accurately measure progress toward CPS interventions going forward; and four were dropped altogether for lack of relevance. Three new indicators from the existing portfolio were added to measure results and ensure consistency in the ongoing program. These revisions appear to have been successful. More targets were achieved by the end of the CPS period, and sector teams found it easier to report on the status of CPS outcomes given that the information was generally tracked as part of regular reporting on project results. It is important to note, however, that outcomes regarding newer projects such as the proposed Naoro Brown Hydropower Project and the Water Supply and Sanitation Development Project were not achieved owing to delays in implementation.

37. **Risks. Each risk identified by the CPS and PLR remained relevant throughout the CPS period.** The CPS appropriately identified the political and governance environment, the macroeconomic context and associated policy landscape, and institutional and technical capacity as high or moderate risks to portfolio delivery in PNG. Macroeconomic risks remained high during the CPS period, but the WBG, in coordination with the IMF, was able to provide strategic just-in-time advice and deepen our macroeconomic dialogue. Risks related to institutional capacity for implementation were partially mitigated by expanded provision of hands-on support and capacity building support for implementing agencies and PMUs by task teams and the Country Office. However, challenges with weak interagency coordination and cumbersome government procurement processes continue to impact implementation performance. Concerns over compliance with environment and social safeguards requirements were identified and addressed in a series of action plans. Stakeholder risks were experienced to a varying degree by different task teams. For example, in the agriculture sector, oil palm incursions into the PPAP project areas in East New Britain have impacted some beneficiaries and cocoa investments made under the project. The WBG expanded its presence in Port Moresby over the CPS period, which increased day-to-day engagement with the government, PMU staff, and development partners to address key policy and implementation issues.

B. Implementation of the CPS Program

Rating: Good

38. **Performance against CPS results framework indicators was Good.** It should be noted that some of the indicators in the CPS were revised during the PLR to improve relevance and monitorability. Several key factors contributed to successful achievement of results during the CPS period. Projects that performed well, such as PPAP and RMRPII, benefitted from strong government and stakeholder ownership, including champions that stewarded processes at key points in the project timeline; and had adequately staffed PMUs and implementing agency project teams that could be complemented by timely capacity building and hands-on implementation support from the WBG. In addition, those projects that showed flexibility in project design were also able to respond to the changing delivery environment. Key factors underlying areas in which CPS outcome indicators were not achieved or only partially achieved included delays in staffing up PMUs and prevailing institutional and capacity constraints in the sector. Procurement and financial management are a continuing challenge in the PNG portfolio, as government financial

and procurement processes often involve multiple government agencies and protracted approval processes.

39. **A Country Portfolio Performance Review was prepared in 2013, supplemented by portfolio and problem project reviews in intervening years.** The annual portfolio reviews in 2015, 2016, and 2017, and problem project reviews in December 2017 and August 2018 (just after the end of the CPS period), highlighted that although the government has resolved some implementation bottlenecks, the following issues continue to pose significant risks: (i) delays in the completion and submission of annual project financial statements to auditors; (ii) delays in procurement processes and the associated award of contracts; (iii) insufficient counterpart funding; and (iv) low capacity of executing agencies and PMUs to manage contracts and effectively address social and environmental safeguard issues. PNG's portfolio worsened in 2017 due to the very slow start up of several projects approved in 2017. Project start-up has been particularly slow in sectors where the World Bank has not had a previous lending engagement (tourism and water supply and sanitation) or has not had a lending engagement in the sector for a long period (health). To manage the key risks associated with an expanded lending pipeline, the WBG is focusing on improving project implementation readiness and has introduced government-chaired Problem Project Review meetings to identify performance issues and agree on remedial actions. Additional emphasis will be placed on ensuring timely recruitment of PMU staff. The WBG continues to work with counterparts in Treasury, Finance, the DNPM, and the Central Supply and Tenders Board to strengthen engagement and cooperation, develop a greater understanding of procedures, and proactively monitor contract implementation.

40. **Despite these challenges, the WBG's portfolio continued to expand in PNG over the CPS period and successfully supported CPF objectives (Table 2).** At June 30, 2018, the active PNG portfolio included commitments on ten International Development Association (IDA) activities and three investments financed by recipient-executed trust funds (US\$412.5 million). Investments focus on road maintenance and rehabilitation, agriculture, water supply and sanitation, urban youth employment, rural service delivery and local governance, rural communications, the energy sector, access to finance among SMEs, tourism, and health. The WBG engaged intensively with the government to deliver the IDA17 program and is working closely with the government to identify the IDA18 pipeline of projects. The strengthening macro-fiscal policy dialogue between the government and the WBG resulted in the approval of a DPO in October 2018.

Table 2: Papua New Guinea Portfolio Highlights

Indicator	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Jan 31 2019
Active Projects #	9	9	10	9	7	11	10	10
Net Commitments Amt \$m	189.41	189.41	328.91	313.71	289.51	417.51	412.51	547.49
Total Disbursements \$m	20.92	43.45	63.74	83.56	87.55	120.68	151.02	303.69
Total Undisbursed Balance \$m	165.01	141.18	264.63	215.99	179.94	273.24	245.01	223.33
Disbursements in FY \$m	16.84	22.53	37.02	30.45	23.81	33.13	35.32	164.59
Disbursement Ratio for IPF only %	9.3	13.8	26.3	12.4	11.7	18.7	12.6	6.9
IBRD/IDA Disb Ratio	9.7	14.7	22.0	10.0	11.2	17.9	12.6	6.9
Actual Problem Project # ^a	1	4	2	3	2	1	4	7 ^c
Problem Project %	11.1	44.4	20.0	33.3	28.6	9.1	40.0	70.0
Potential Problem Project #	2	0	1	1	2	3	1	0
Projects At Risk # ^b	3	4	3	4	4	4	5	7 ^c
Proactivity %	50	0.0	50.0	100.0	100.0	50.0	100.0	0

Notes: a/ A problem project is one for which implementation progress is unsatisfactory and/or development objectives are not likely to be achieved; b/ Projects at risk are those at risk of not meeting development objectives, including both actual and potential problem projects. c/ On February 8, 2019, the PNG portfolio recorded six problem projects following the upgrading of the PPAP project.

41. **The WBG has expanded its technical and financial cooperation with PNG's development partners and the private sector during the CPS period.** Cooperation with Australia's Department of Foreign Affairs and Trade (DFAT) has notably expanded during the CPS period. Through the PNG Partnership, Australia and New Zealand have demonstrated their support for the IFC's program by contributing AU\$40 million to support business development and advisory activities carried out by the IFC program in PNG. The PNG Partnership extends to July 2022. As at June 2018 IFC had AU\$32 million committed to programs in PNG. In addition to providing funding for IFC engagement in PNG, and for IDIB through the State and Peace Building Fund, the PNG Strategic Partnership Multi-Donor Trust Fund is supporting recipient and Bank-executed activities through DFAT grant support valued at approximately US\$47 million. This includes recipient-executed grant co-financing of the Rural Service Development Project, Urban Youth Employment Project II, and PNG Resilient Transport Project (under preparation); as well as Bank-executed staffing and ASA work in ICT, energy, and rural service delivery evaluations. The WBG has leveraged US\$6.4 million in European Union funds to support additional financing for the PPAP, in continued close collaboration with the International Fund for Agricultural Development, which has committed to provide a total of US\$36 million in parallel financing for the project (including the additional financing operation) and participates in joint missions.

42. **The IFC has a growing pipeline of investments in PNG; however, given market risks prolonged and intensive engagement by investment staff is required to identify, commit and manage transactions.** Business development costs are greater than in most countries because of a need to work with sponsors over a lengthy period before an investment can be committed. Recognition by donors of these constraints and a willingness to contribute towards IFC's business development costs have supported IFC's investment activities in PNG. These resources need to be leveraged by continued strong support from Regional Industry Departments to increase the number

of investments over the next CPF period, especially given IFC's increased focus on IDA and FCS markets like PNG.

43. **Although MIGA actively engaged in business development activities in PNG during the CPS period, no guarantees were issued, partly reflecting a challenging business environment for overseas investors.** MIGA will continue to look to support suitable foreign investments in PNG, including by means of working closely with the IFC and the World Bank.

44. **While opportunities for leveraging MFD investments at the sector and geographic level were limited during the CPS period, efforts are underway to foster stronger linkages between IFC supported agriculture investments and World Bank financed agriculture and infrastructure activities in the forthcoming CPF.** The WBG is actively looking to merge private investment in agriculture and cold-chain transport logistics with complementary, geographically focused public investments in transport infrastructure to help create new markets as well as drive greater efficiencies through reduced travel time for domestic growers.

45. **In addition to development partner financing, the WBG has had several successful partnerships over the CPS period.** ExxonMobil contributed US\$1 million toward the design and implementation of the UYEP I impact evaluation. In-kind support was also provided to the UYEP I project by the Bank of South Pacific to design and deliver part of the financial literacy training component and waive the account setup fees for trainees. In agriculture, the PPAP partnered successfully with the private sector in response to the devastating cocoa pod borer (CPB) pest outbreak that saw exports of dry bean cocoa from PNG's East New Britain Province fall 80 percent between 2008 and 2012. By late 2015, however, some 1.1 million new CPB-tolerant cocoa hybrid clones had been developed and planted under the PPAP. As a result of this intervention, cocoa yields have risen from 169 kg/ha in 2011 to their current 2018 level of 728 kg/ha, already surpassing the project objective of 600kg/ha. The WBG continues to work with development partners to find creative ways to harmonize financing regulations in support of joint efforts in PNG. The WBG engages regularly with PNG's civil society organizations, particularly in areas such as the EITI.

C. Alignment with WBG Corporate Goals

46. **Although the CPS was prepared before the articulation of the twin goals, the WBG's engagement in PNG over the CPS period was well aligned to eliminating extreme poverty and boosting shared prosperity.** The vision—shared by the WBG and the government—of creating an equitable and sustainable development trajectory for PNG has ensured a continued focus on the twin goals, in close alignment with the government's own development planning objectives.

47. **Under the first pillar of the CPS, investments in road transport and telecommunications promoted inclusion and connectivity, created a better enabling environment for the private sector, and supported the delivery of essential services including health and education.** In addition, the WBG took several opportunities to support institutional strengthening in DoW and the Department of Local and Provincial Government.

48. **Under the second pillar, support to smallholder farmers and urban youth has helped to reduce poverty and boost shared prosperity by strengthening opportunities for income generation in both rural and urban areas.** The WBG piloted a number of demonstration projects in agricultural smallholder partnerships and rural service delivery to leverage modest government contributions and donor co-financing in support of rural income generation and community-driven development initiatives. The WBG sought to assist the government in responding to PNG's primary demographic challenge of a rapidly growing youth population with limited secondary or tertiary educational opportunities. The Reading Education Project for PNG, approved in 2011 and closed in 2015, worked to improve the teaching and learning of reading skills in elementary and primary education. The Flexible and Open Distance Education Project, although closed in 2016 with a moderately unsatisfactory outcome rating, made some important progress in improving the curriculum and technical capacity to support flexible opportunities for the attainment of secondary education equivalency. To absorb the burgeoning youth population into the formal economy, PNG must increase university places by 30,000 and create some 20,000 new jobs on an annual basis over the coming years. The UYEP pilot introduced vocational skills and job placements for some of the most vulnerable youth in PNG through several Youth Corps cohorts. This project was expanded under a second phase with donor grant financing from DFAT and a co-contribution from the provincial government for the National Capital District. The WBG also directed its attention to creating a better enabling environment for private sector led growth. This was achieved through the Small and Medium Enterprise Access to Finance Project (P120707) which sought to improve equitable access to finance for SMEs, central to driving job creation. Supporting the economic empowerment of women has been important to helping improve livelihoods, and this manifested itself through additional support for women's employment through the IFC's Business Coalition for Women; this initiative aims to help firms in PNG recruit, retain, develop, and promote women – as employees, leaders, customers and business partners: member organisations are provided access to relevant and practical tools, model policies, good practices, case studies and other resources to help them make the most of their female talent.

49. **Under the third pillar, the CPS worked to ensure shared prosperity through initiatives to support prudent management of resources, including boosting revenue and increasing the quality of expenditure.** The WBG provided policy support to central agencies to improve revenue collection and expenditure through delivering risk-based tax audit tools to the Internal Revenue Commission and advisory work on medium-term debt and expenditure management through the national budget process, to ensure more efficient and targeted spending outcomes.

IV. Key Lessons Learned

50. **Implementation of the CPS holds important lessons for PNG's forthcoming FY2019–2023 CPF, and for the WBG's work in fragile states more generally.** In consultations with government counterparts and PMU staff, the country team identified several primary lessons from CPS implementation that warrant exploration in the follow-up CPF.

51. **Improving WBG's future portfolio performance requires sustained, long-term engagement by project teams, implementing agencies, and central agencies. It also requires ensuring necessary capacity in implementation agencies.** Lessons learned from projects under implementation during the CPS period highlight the importance of strong government and

stakeholder ownership; the need for increased government engagement in project governance and oversight; and the importance of timely recruitment of qualified PMU staff complemented by hands-on implementation support by task teams. Greater use of Project Preparation Advances and Grants as well as retroactive financing could help ensure timely recruitment of project staff/consultants and implementation readiness. Given the capacity limitations, the WB will need to continue to provide enhanced implementation support and continuous capacity building and training for counterparts, particularly in areas related to project management, procurement, financial management and safeguards. This, together with regular portfolio and problem project reviews undertaken jointly with government, will help ensure early identification of issues impacting implementation performance and strategies for their resolution. As demonstrated by projects approved in 2017, it is essential to undertake a careful and realistic capacity assessment for any new areas of engagement. Engaging in multiple new sectors at the same time can stretch the government and Bank's capacity in providing implementation support.

52. Greater interagency coordination is required to address continuing bottlenecks in procurement, financial management, and safeguards. Delays in government procurement and financial management processes represent the greatest systemic challenges to implementation of the PNG portfolio. The government's desire to restart the regular project steering committees under the leadership of the Department of National Planning and Department of Treasury is a welcome development. A 2013 Bank-executed diagnostic of public procurement for the Department of Treasury found that there are up to 42 individual steps involved in awarding a public contract in PNG. Regular follow-up and engagement with implementing agencies by the task teams and the Country Office has seen some improvements in clearance times at the CSTB and State Solicitor's Office, although this remains an area requiring improvement. During the CPS period, the Bank utilized procurement Hands-on Expanded Implementation Support (HIES) for the first time in PNG under the Emergency Tuberculosis Project. However, despite the enhanced support from the Bank, continuing client capacity constraints meant that the benefits of HEIS were not fully realized.⁵⁰ With respect to financial management, delays in the submission of financial statements by implementing agencies often represent a major challenge for the timely completion of project audits. Capacity for implementation and monitoring of safeguards compliance also needed to be enhanced. This includes ensuring qualified safeguards staff are recruited into implementing agencies and task teams provide clear technical guidance and support to counterparts on safeguards. A common understanding and early focus on safeguards will facilitate improved project implementation. Experience from RMRPII also reveals the importance of regular monitoring by government, PMUs, and Bank safeguards staff and the need for clarity on agreed monitoring plans. Having strong grievance redress mechanisms in place, and regular monitoring of these mechanisms, will ensure that community concerns can be addressed in a timely manner.

53. Ensuring flexibility to respond to emerging opportunities and for adaptive learning in project design will remain important given PNG's institutional and social fragility. As demonstrated by the budget support engagement which make to fruition immediately after the CPS

⁵⁰ It should be noted that despite HEIS, the Emergency Tuberculosis Project was downgraded to problem project status in December 2018 due to low disbursements.

period, flexibility in the WBG's program to respond to emerging opportunities is essential. Project designs should also maintain flexibility for adaptive learning and adjustments during implementation and reflect the difficult delivery environment by avoiding overly complex delivery models. The institutional impacts of fragility require the WBG to place a premium on maintaining effective relationships with stakeholders in PNG. The Country Office will need to continue a close dialogue with the government, development partners, and the private sector to maintain an in-depth understanding of important political economy considerations affecting the portfolio, particularly in fragile areas of PNG (for example, in the Highlands region and Bougainville). A Risk and Resilience Assessment was completed as part of the CPF process to inform the Bank's thinking on fragility-sensitive programming in PNG. To mitigate the potential for community-level tensions, a common feature of the landscape for many large investments in PNG, grievance redress mechanisms need to be regularly monitored and discussed with the client to ensure that relevant parties are aware of potential triggers during project implementation. WBG staff need to remain particularly sensitive to complexities around land issues and factor in security considerations and costs for their engagements and projects.

54. **Strategic partnerships which bring opportunities to expand analytical work, increase project impacts, and test new ideas should continue to be strengthened.** Cooperation with Australia's DFAT and other partners deepened during the CPS period. This helped bring about opportunities for the WBG to expand its assistance to the private sector; produce analytical work in ICT, energy, agriculture, logistics, and rural service delivery; and access grants to increase the size of project investments and offer a lower cost of borrowing to the government. Beyond this, partnership with the private sector in the UYEP, PPAP, and SME Access to Finance projects has demonstrated that positive development outcomes and commercial benefits for the private sector can go hand in hand.

55. **IFC experience in advancing business enabling environment reform in PNG showed that in a highly dynamic political and policy environment, project structures must be responsive and focused.** This requires well designed projects drawing on global resources and experience that can provide a clear case for reform. Local champions for reform exist and, along with leveraging of major sectoral investments, are essential to driving change. However, windows of opportunity can close unexpectedly with changes of personnel. Significant capacity constraints within the machinery of government create long delays in achieving legislative reform and timely legislative change occurs only where there is strong and high-level political support.

56. **Even strong private sector sponsors require significant support to ensure they can adequately respond to reporting and environmental and social safeguards expectations associated with IFC investments.** Tools such as IFC's Creating Markets Advisory Window, together with strong donor support, are important resources to help support clients build the necessary capacity and skills to work with organizations like IFC.

Attachment 1: PNG Completion and Learning Review – Self-Evaluation Matrix

Papua New Guinea Country Partnership Strategy FY2013–FY2018

Indicators	Milestones	Bank Group Interventions (approval-completion date; ICR outcome or ISR development outcome/implementation progress rating)
PILLAR 1: INCREASED AND MORE GENDER-EQUITABLE ACCESS TO INCLUSIVE PHYSICAL AND FINANCIAL INFRASTRUCTURE		
1.1 ROAD REHABILITATION		
<i>Relevant goals in MTDP: “Improved conditions of priority national roads (rehab, upgrade, maintain)” p. 48; “Climate-proofing infrastructure” pp. 109–111</i>		
<p>1.1.1 More and safer roads, benefitting women and girls as well as men and boys, as measured by:</p> <p>(a) Additional roads rehabilitated in target provinces Baseline: 0 (2010) Target: 125 km (2018)</p> <p>Achieved. As of June 30, 2018, 129.4 km of rural roads have been rehabilitated.</p> <p>(b) Cumulative number of person-days worked by women as a result of project activities that are not related to routine maintenance activities Baseline: 2,100 (2015) Target: 4,000 (2018)</p> <p>Achieved. As of June 2018, 8,150 person-days were worked by women as a result of project activities that are not related to routine maintenance.</p>	<p>Gender-Sensitive and Climate-Resilient Road Rehabilitation</p> <ul style="list-style-type: none"> - 8 domestic companies trained in bidding and contract management (achieved) - 52 gender-based violence and HIV/AIDS awareness workshops conducted against a target of 52 in total (achieved) - Natural disaster risks incorporated into design and maintenance of roads (achieved) 	<p>Lending: IDA: RMRP II (FY11-21, MS/MU); RMRP II AF (FY14); Disaster Reduction and Recovery, Building a More Disaster and Climate Resilient Transport Sector Project (FY12-15, MS/MS)</p>
1.2 INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) POLICY		
<i>Relevant goals in MTDP: “Continue reform to the ICT policy framework” and “utilize PPP to provide (telecommunications) services where otherwise commercially unviable” p. 56</i>		
	ICT Coverage	Lending: IDA: Rural Communications (FY10-19, S/S)

Indicators	Milestones	Bank Group Interventions (approval-completion date; ICR outcome or ISR development outcome/implementation progress rating)
<p>1.2.1 Improved penetration of mobile telecommunications services, as measured by the number of mobile cellular telephone subscriptions in targeted provinces (per 100 inhabitants) Baseline: 21% (2009); 45% (2015) Target: 55% (2018)</p> <p>Achieved. Mobile penetration in targeted provinces measured at 65% in May 2018 by the telecommunications regulator, NICTA.</p> <p>1.2.2 Increased Internet usage in rural communities targeted by the Rural Communications project Baseline: 0% (2010); 20% (2015) Target: 30% (2016)</p> <p>Achieved. Increase in rural internet usage in project areas measured at 50% in May 2018 by NICTA.</p>	<ul style="list-style-type: none"> - Universal access subsidies finance investments in increasing telecom and Internet services in underserved rural communities (achieved: the first universal access subsidies demonstration project for voice services financed the installation of mobile base stations in 59 sites in remote areas and has contributed to providing basic telecommunications services to over 500,000 people who were previously unserved.) - Public Internet access points established in five schools (dropped by the Government due to unsuccessful bids and lack of private sector interest. Given rapid sector development, the focus shifted instead to upgrading existing networks to 3G/4G in rural communities under a second universal access subsidies demonstration project. As of November 2017, Digicel 3G mobile Internet has been installed in 76 remote sites across PNG that previously did not have Internet coverage, yielding over 180,000 new 3G subscribers.) 	<p>ASA: Connectivity Analysis (completed April 2016); Papua New Guinea ICT Sector Development TA (launched early 2017 with support from DFAT)</p>
<p>1.3 FINANCIAL SECTOR Relevant goals in MTDP: “Expand microfinance and SME banking services” p. 83; “Encourage rural outreach by financial services” p. 14</p>		
<p>1.3.1 PGK 550m increase in credit provided to SMEs in PNG (some institutions do not share data, measurement limited to project banks) Baseline: PGK 0 (2012) Target: PGK 300m (2018)</p>	<p>SME Credit Expansion</p> <ul style="list-style-type: none"> - 20% increase in SME lending by Bank South Pacific (PGK volume) (achieved) - One more pre-cleared financial institution joins Risk Share Facility (not achieved: government has proposed a project 	<p>Lending: IDA: Small and Medium Enterprise Access to Finance Project (FY11-25; MU/MS): IFC provided a K150 million partial guarantee supported by IDA lending of US\$10 million first loss.</p>

Indicators	Milestones	Bank Group Interventions (approval-completion date; ICR outcome or ISR development outcome/implementation progress rating)
<p>Achieved. As of May 2018, Bank South Pacific had committed PGK 115 million to SMEs under the Risk Share Facility and PGK 492 million in credits through its own lending to SMEs.</p> <p>1.3.2 Increased number of women with access to financial institutions in rural areas, either branches or mobile networks Baseline: Less than 5% of BSP’s total SME lending was for women (2013) Target: 10% increase</p> <p>Achieved. As of May 2018, 14.3% of all loans granted were provided to businesses owned by women only and women as principal partners.</p>	<p>restructuring following no interest from other registered institutions)</p> <p>Women’s Access to Credit</p> <ul style="list-style-type: none"> - Outreach to/training for minimum of 100 women SME owners (achieved: 391 women entrepreneurs participated in a customized training program from a target of 300) - National Forum showcases financial literacy obstacles and generates funding for women-focused financial literacy (achieved in 2016; CEF and BSP delivered financial education training to SMEs, including women, in 2016–2017) 	<p>ASA: IFC TA on Simplification of Business Registration for SMEs (completed); IFC TA on Mobile Banking Expansion (ongoing); IFC TA on Simplification of Tax and Financial Reporting for SMEs (ongoing); TA for Financial Capability Survey (completed); IFC TA on Financial Consumer Protection (ongoing)</p>
<p>1.4 RENEWABLE ENERGY Relevant goals in MTDP: “Increase electricity generation utilizing hydropower (and other renewables)” and “export clean electricity to neighboring countries” pp. 58–59</p>		
<p>1.4.1 Building blocks in place for a larger renewable energy contribution to increased access to electricity through renewable PPP, as measured by the GoPNG taking one medium-to-large renewable energy PPP to financial close Baseline: 0 (2015) Target: 1 (2018)</p> <p>Not Achieved. The WBG provided TA support through ESDP for development of the Naoro Brown Hydropower Project. A cabinet paper on a proposed financial structure was approved in April 2018. This has triggered the next phase of the project.</p>	<p>Renewable Energy</p> <ul style="list-style-type: none"> - GoPNG rural electrification strategy in place (partially achieved: rural electrification geospatial and investment prospectus final report completed in August 2016; Cabinet approval of the strategy, and organization of a donor roundtable are pending) - GoPNG policy and third-party access code adopted (achieved in 2014) - Tendering process for a developer for 80 MW Naoro Brown Hydropower Project commenced (not achieved: Government approval received in April 2018, tender to follow). - 	<p>Lending: IDA/GEF: Energy Sector Development Project (FY13-20, MU/MU)</p> <p>ASA: Access to Renewable Energy TA (ongoing); Rural Electrification Study (completed); IFC Lighting PNG Program has enabled 20% of the PNG population to have access to solar power at the household level.</p>

Indicators	Milestones	Bank Group Interventions (approval-completion date; ICR outcome or ISR development outcome/implementation progress rating)
1.5 WATER ACCESS <i>Relevant goals in MTDP: "Increase access to improved water sources" pp. 68–70</i>		
<p>1.5.1 Improved access to water, as measured by the number of people in urban areas provided with access to improved water sources under the project</p> <p>Baseline: 0 (2016) Target: 1,000 (2018)</p> <p>Not Achieved. The Water Supply and Sanitation Development Project became effective in July 2017, and key water infrastructure contracts are in the process of being procured.</p>	<p>Access to Improved Water Sources</p> <ul style="list-style-type: none"> - Construction of one urban water supply project completed (not achieved) 	<p>Lending: IDA: Water Supply and Sanitation Development Project (FY18-24, MS/MS)</p> <p>ASA: Water and Sanitation TA (ongoing)</p>
PILLAR 2: GENDER-EQUITABLE IMPROVEMENTS IN LIVES AND LIVELIHOODS		
2.1 AGRICULTURE AND RURAL DEVELOPMENT <i>Relevant goals in MTDP: "Efficient institutions serving agriculture sector; improved cash crop production; improve agricultural infrastructure including feeder roads as key links in the supply chain" p. 70; "Climate change research supporting climate-resilient agricultural sector" pp. 109–111</i>		
<p>2.1.1 Improvements in yields of smallholder coffee, cocoa and oil palm farmers, as measured by:</p> <p>(a) Rural roads rehabilitated and maintained in project areas, per Maintenance Agreements Baseline: 0.7 km (2015) Target: 50 km (2018)</p> <p>Partially Achieved. At June 29, 2018 19.80 km of rural roads have been rehabilitated and maintained in project areas. Additional procurement support is being provided to the Central Supply and Tenders Board to assess and award contracts.</p> <p>(b) Increase in average cocoa yields for project participants Baseline: 169kg/ha (2011)</p>	<p>Agricultural Productivity</p> <ul style="list-style-type: none"> - Maintenance agreements completed for 10 feeder roads (achieved: Maintenance MOUs signed with 10 cocoa farming communities for feeder roads) - Implementation of at least 35 Productive Partnerships for coffee and cocoa (achieved: a total of 81 partnership agreements have been signed as of March 2018, although a few have dropped out over the course of implementation) <p>Climate Resilience</p> <ul style="list-style-type: none"> - New research available on climate change and disaster risks in agriculture sector 	<p>Lending: IDA: PPAP (FY10-19, MS/MU); PPAP AF (FY14); Disaster Risk Management and Climate Change Adaption Program in Agriculture (FY11-15).</p> <p>ASA: Fruit of Her Labor (completed June 2014); PNG Agriculture Notes (completed 2017); El Nino Response Trust Fund for PNG (completed December 2017); World Bank-DFAT Gender in Agriculture Research Trust Fund (FY17-18); IFC Tininga TA project (completed July 2018).</p>

Indicators	Milestones	Bank Group Interventions (approval-completion date; ICR outcome or ISR development outcome/implementation progress rating)
<p>Target: 575 kg/ha (2018)</p> <p>Achieved. 728 kg/ha as of March 31, 2018.</p> <p>(c) Increase in average coffee yields for project participants Baseline: 382 kg/ha (2011) Target: 575 kg/ha (2018)</p> <p>Mostly Achieved. As of June 29, 2018, coffee yields had increased to 566 kg/ha.</p> <p>2.1.2 Improved smallholder sustainability and resilience, as measured by:</p> <p>(a) Cumulative number of beneficiaries of Productive Partnerships in Agriculture Project (PPAP), including women Baseline: 0 (2010); 33,967 total, of which 11,850 women (2015) Target: 60,000, of which 24,000 women (2018)</p> <p>Achieved. As of June 29, 2018, the number of beneficiaries reached 67,340, of which 24,852 were women.</p> <p>(b) Training of oil palm growers in sustainable production practices Baseline: 0 (2012) Target: 1,500 cumulative (2016)</p> <p>Dropped. Indicator was dropped during PLR, but mistakenly included in revised CPS results matrix. As such, the CLR assessment does not include this outcome in its ratings calculations.</p>	<p>(partially achieved: the El Niño Response Trust Fund has supported preparation of a Framework for Governance of El Niño funds and a study on Planning for Recovery in Remote Areas, which aim to inform GoPNG, and specifically the National Disaster Centre, in planning for the use of funds to respond to El Niño events).</p> <p>Support to Women Farmers</p> <ul style="list-style-type: none"> - Targeted outreach to women coffee/cocoa farmers (partially achieved: efforts are ongoing to ensure that technical training is accessible by women) - Gender-disaggregated monitoring of agriculture project results (achieved: data on project beneficiaries are gender-disaggregated, which allows the project to monitor other indicators on a gender-disaggregated basis as well) 	
<p>2.2 YOUTH DEVELOPMENT</p>		
<p><i>Relevant goals in MTDP: “Increase programs to nurture and develop youth as agents of change and increase opportunities for youth engagement informal employment” p. 94</i></p>		
<p>2.2.1 Youth in urban areas have more access to training and job opportunities, as measured by:</p>	<p>Youth Development</p> <ul style="list-style-type: none"> - 30 private sector employers in Port Moresby have new source for trained workers (achieved: over 60 private sector 	<p>Lending: IDA: UYEP (FY11-19, S/S); UYEP AF (FY16); Reading Education Project (FY11-16, MS); Flexible and Open Distance Education Project (FY11-16, MU).</p>

Indicators	Milestones	Bank Group Interventions (approval-completion date; ICR outcome or ISR development outcome/implementation progress rating)
<p>(a) Days of workfare completed by youth beneficiaries over the course of Urban Youth Employment Project (UYEP) Baseline: 340,000 total cumulative (2015) Target: 660,000 total cumulative (2018)</p> <p>Achieved. 758,183 as of March 30, 2018.</p> <p>(b) Share of on-the-job graduates who have an offer of a paid job as they leave UYEP Baseline: 0 (2011); 39% (June 2015) Target: 30% (2018)</p> <p>Achieved. 46% based on 2016 on-the-job exit/graduation survey, and 41% based on the 2017 follow-up survey.</p> <p>(c) Share of female participants graduating from each component of UYEP (Basic Life Skills Training, Youth Job Corps, Pre-Employment Training, and On-the-Job Training) Baseline: 40% (2015) Target: 40% (2018)</p> <p>Achieved. 41% as of March 30, 2018.</p>	<p>employers participating in the project, as of September 30, 2017; at its peak, 90 employers engaged with UYEP)</p> <ul style="list-style-type: none"> - 9,000 youth beneficiaries have and use new bank accounts and are trained to use mobile phones for personal financial tracking (achieved: over 17,000 accounts established as of March 30, 2018) - 2,400 project beneficiaries offered an on-the-job training placement (achieved: 4,334 youth have been placed in on-the-job training and 2,714 have graduated from the program as of March 30, 2018) 	
<p>2.3 BUSINESS-ENABLING ENVIRONMENT <i>Relevant goals in MTDP: “Ensure processes that facilitate business and investment” p. 86; “Remove efficiencies in regulation, ensure low business costs” p. 94; “Increase women’s access to economic opportunities and awareness of economic rights” p. 96</i></p>		
<p>2.3.1 More efficient opening/operation/closing of businesses in PNG, as measured by shorter number of days in Doing Business Baseline: 51 (2012) Target: 45 (2016)</p> <p>Achieved. <i>Doing Business 2018</i> reports that it takes 41 days to start a business in PNG. Under the original CPS, this would have represented an achievement of the target (which was 45 days, down from a baseline of 51). During the PLR, the original baseline and target were amended (to 35 and 10,</p>	<p>Improved Business-Enabling Environment</p> <ul style="list-style-type: none"> - IPA outreach and website enhanced (achieved: IPA website provides full information on business registration and allows the public to search the business registry. In 2014 and 2015, IFC assisted IPA with outreach to stakeholders on revisions to legislation and new registration process) 	<p>Lending: IDA: Small and Medium Enterprise Access to Finance Project (FY11-25; MU/MS)</p> <p>ASA: Doing Business; IFC Business Coalition for Women.</p>

Indicators	Milestones	Bank Group Interventions (approval-completion date; ICR outcome or ISR development outcome/implementation progress rating)
<p><u>respectively) to reflect a change in <i>Doing Business</i> methodology; however, this methodology was not adopted in the <i>Doing Business</i> report so results have been assessed against the original indicator and target, which have been achieved.</u></p> <p>2.3.2 10% increase in annual number of women-owned businesses who “graduate” to formal status with registered businesses Baseline: ‘To be generated from SME Survey sex-disaggregated IPA data in early 2013.’ Target: 10% increase (2016)</p> <p>Achieved. Although the business registry does not currently provide information on women-owned businesses, it is possible to discern a significant increase in female participation in business management and ownership among formally registered businesses. Between 2016 and 2018 (the period for which these figures have been collected), the share of female shareholders in formally registered companies increased by 62% and the number of female directors increased by 56%</p> <p>2.3.3 20% increase in number of firms filing tax returns Baseline: 8,400 (2014) Target: 10,000 (2018)</p> <p>Not Achieved. Income tax return filings decreased to 8,088 in 2015 and 7,786 in 2016. Figures for 2017 are still being compiled. It is expected that compliance will improve following recent efforts from the Internal Revenue Commission.</p>	<ul style="list-style-type: none"> - On-line business registration active (achieved: business registry is online and certain types of registration can be undertaken online) <p>Improved Outreach to Women</p> <ul style="list-style-type: none"> - Improved outreach to women business owners (achieved: at the request of business, IFC set up the Business Coalition for Women (BCFW) in PNG in 2014 and is now operating as an entity in its own right. In 2014 BCFW started with sixteen-member companies and at June 2018, more than 60 leading companies were members. BCFW provides tools and resources such as leadership courses, gender smart safety audits and a model policy for addressing family and sexual violence in the workplace. To date, 47 businesses implemented 68 policies and practices, benefitting 50,000 employees.) <p>Increase in SME Tax Registration</p> <ul style="list-style-type: none"> - Data analysis undertaken to support the development of profitability ratios and business benchmarks for small business, as an input into a simplified tax regime (achieved: analysis incorporated into SME tax policy paper prepared for the Department of Treasury) 	

PILLAR 3: INCREASINGLY PRUDENT MANAGEMENT OF REVENUES AND BENEFITS

3.1 EXTRACTIVES SECTOR

Relevant goals in MTDP: “Improved capacity of Minerals Resource Authority (MRA) and Department of Minerals Policy and Geo-hazards Management (DMPGM), regulatory and policy frameworks reviewed” p. 79; “Ensure equitable distribution of benefits to landowners and broader community” p. 77

Indicators	Milestones	Bank Group Interventions (approval-completion date; ICR outcome or ISR development outcome/implementation progress rating)
<p>3.1.1 Better governance and accountability in oil/gas/mining revenues, as measured by status in EITI process Baseline: No formal commitment, Step 0 (2012); Candidate status, Step 2 (2016) Target: PNG achieves compliance with requirements of the EITI Standard, Step 3 (2018)</p> <p>Partially Achieved. The FY2017 country report was published in June 2018. Papua New Guinea was granted an extension to April 2020 to reach validation against the Standard commenced on April 1, 2018. On October 30 2018 the EITI Board noted ‘Satisfactory progress on all requirements related to governance and oversight of the EITI process, attributing the progress in PNG’s implementation to strong government commitment and meaningful engagement by stakeholders.’ The World Bank, through its CSO Support Project and the 2018 EGPS Grant, will continue to support the PNGEITI Secretariat and PNG to achieve compliance and admittance as full member of EITI in 2021 until project completion.</p> <p>3.1.2 More equal involvement of women in community benefits from oil/gas/mining, as measured by rights for women in project agreements Baseline: 1 (2008) Target: 3 (2016)</p> <p>Not Achieved. Under the Women in Mining initiative, project agreements for Porgera, Ramu, Lihir, Hidden Valley, Simberi, Tolukuma, Sinivit, and Oil and Gas projects channel less than 50% of financial benefits, project financing, and representation to women.</p>	<p>Extractives Sector Governance</p> <ul style="list-style-type: none"> - Updated and revised mining sector policy framework (not achieved): Legislation was not passed by the end of CPS period. - Cabinet approves PNG joining EITI, and multi-stakeholder group working to EITI Candidate Status (achieved) - Government commits ongoing funding support to EITI compliance (achieved) - EITI reports produced on an annual basis (mostly achieved): The PNGEITI Secretariat has steadily improved the timeliness of its report submission. The first EITI country report (for FY2013) was submitted in February 2016. The second country report (for FY2014) was published in early 2017. The EITI Report for FY2016 was published in December 2017. - Government acts on recommendations made in EITI reports (mostly achieved) <p>Women in Oil/Gas/Mining</p> <ul style="list-style-type: none"> - Policy initiatives on women’s participation in extractives Memorandum of Agreement (MOAs) (achieved): women’s participation in the mining value chain (from exploration to operations to impacts) is being articulated in mining policies and the mining law that are being finalized for submission to parliament, including benefit sharing; social mapping studies conducted to capture women’s issues 	<p>Lending: IDA: Mining TA Project (FY08-15, MS); Recipient-Executed SPF on family and sexual violence in extractive industries communities (FY16-18, MS/MS); JSDF: Social and Economic Empowerment for Women in Mining and Petroleum Areas (FY13-18, HU/U).</p> <p>ASA: TA Strengthening CSO Participation in EITI completed February 2018.</p>

Indicators	Milestones	Bank Group Interventions (approval-completion date; ICR outcome or ISR development outcome/implementation progress rating)
	<p>have been integrated into the new proposed PNG Mining Act; the Bougainville Mining Act (2015) recognizes the role of women as landowners in Bougainville; and the Ok Tedi Eleventh Supplemental Act (2014) is gender-inclusive).</p>	
<p>3.2 RURAL SERVICE DELIVERY <i>Relevant goals in MTDP: “Strengthen partnership with private sector and community based stakeholders for development” p. 114</i></p>		
<p>3.2.1 Inclusive bottom-up planning in three provinces promotes increased local decision making, as measured by:</p> <p>(a) Number of community development subprojects implemented through community participation Baseline: 0 (2016) Target: 100 (30 in Central and Western provinces, 70 in Bougainville) (2018)</p> <p>Achieved. As of December 31, 2017, 73 subprojects have been implemented, of which 58 have been completed, under the RSDLGP in Central and Western Provinces. In the Autonomous Region of Bougainville, under the IDIB, 68 subprojects (97%) have been completed and 31 are at least 80% complete or awaiting final certification.</p> <p>(b) Number of persons, including women, benefitting from community development subprojects Baseline: 0 (2016) Target: 130,000 (50,000 in Central and Western Provinces and 80,000 in Bougainville), of which 50% women (2018)</p> <p>Partially Achieved. As of December 29, 2017, 49,285 persons (including 22,280 women, or 45%) have benefitted from community development subprojects under the RSDLGP in Central and Western Provinces. This is 99% of the target number. In the Autonomous Region of Bougainville, 51,642</p>	<p>Improved local decision making</p> <ul style="list-style-type: none"> - 30% of ward residents (male and female) in 74 wards covered by the Rural Service Delivery and Local Governance Preparation and Pilot (RSDLGP) participate in ward development planning meetings (achieved: as of December 29, 2017, 27,134 out of 79,980 persons (34%) in target wards participated in ward development planning meetings; of those participants, 11,162 (41%) were women). - 50% of residents of beneficiary villages in Bougainville (male and female) participate in subproject consultation meetings (partially achieved: 40.5% of residents have participated; owing to the design of the IDIB project, women’s groups lead the consultations and are highly inclusive in consultation, design, and management of subprojects). 	<p>Lending: IDA: RSDLGP (FY14-18, MS/MS); Rural Service Delivery Project (FY17-22, S/MS); SPBF: IDIB (FY11-18, MS/MS); IDIB AF (FY15)</p> <p>ASA: Resource Distribution and Benefit Sharing Research.</p>

Indicators	Milestones	Bank Group Interventions (approval-completion date; ICR outcome or ISR development outcome/implementation progress rating)
persons (including 24,738 women, or 48%) have benefitted from community development subprojects under the IDIB.		
3.3 MACROECONOMIC MANAGEMENT		
<i>Relevant goals in MTDP: “Seek sustainable investment of revenues to benefit current and future generations” p. 77; “Strengthen and enforce accountability and transparency initiatives” p. 114</i>		
<p>3.3.1 More robust debt sustainability framework, as measured by integration of WBG-IMF debt sustainability framework into the medium-term debt strategy document</p> <p>Baseline (2016): WBG-IMF debt sustainability framework has not yet been incorporated into the government’s latest medium-term debt strategy document (2013–17)</p> <p>Target (2018): WBG-IMF debt sustainability framework has been incorporated into the government’s medium-term debt strategy document (2018–22)</p> <p>Achieved. PNG treasury has begun to employ elements of the WBG-IMF debt sustainability framework into the Government’s medium-term debt strategy document (2018–22).</p>	<p>Macroeconomic Management</p> <ul style="list-style-type: none"> - New debt and fiscal strategies announced that continue prudent acyclical policy and expenditure rules (achieved: new medium-term fiscal strategy (2018–22) announced and the Fiscal Responsibility Act amended to incorporate targeting of the non-resource primary fiscal balance over the medium term as fiscal anchor). - Proactive public dialogue on regulatory/institutional provisions for SWF compared with international good practice and SWF Law (achieved: discussions under way between Treasury and the Bank of PNG on SWF implementation) - 2017 Budget Strategy Paper uses the WBG-IMF Debt Sustainability Framework to determine the implied debt-to-GDP ratio for 2017 and forward years based on the 2017 Budget Strategy Framework (achieved) 	<p>ASA: Analysis of Fiscal Policy in PNG (ongoing); Debt Management Performance Assessment (ongoing); WB-IMF TA on Debt Sustainability and Medium-Term Debt Strategy (ongoing); informal WB TA on operationalizing fiscal rules for PNG (ongoing).</p>

