



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 05-May-2021 | Report No: PIDA31841



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Papua New Guinea	P174347	Papua New Guinea Crisis Response and Sustainable Recovery Development Policy Operation (P174347)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	24-Jun-2021	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
The Independent State of Papua New Guinea	Department of Treasury		

Proposed Development Objective(s)

The Program Development Objective is to support the Government of Papua New Guinea in: (i) protecting lives and livelihoods of the population during the COVID-19 crisis; and (ii) laying foundations for a more sustainable recovery over the medium-term.

Financing (in US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

The proposed Development Policy Operation (DPO) is a credit of the International Development Association (IDA) in the amount of US\$100 million. The DPO dialogue is central to the overall development strategy engagement between the World Bank Group (WBG) and the Independent State of Papua New Guinea (PNG) and the country's response to



the COVID-19 pandemic.

The ongoing COVID-19 crisis is an unprecedented external shock for PNG's economy, with negative implications for the government budget and government's ability to protect lives and livelihoods of its population. Although the country initially avoided the first-wave health emergency experienced elsewhere, there is now an uncontrolled surge in COVID-19 cases. The impact of COVID-19 on livelihoods has been severe, particularly for the poor and vulnerable, according to a recent World Bank survey. COVID-19's impact on women is extremely significant and has exacerbated their burden of being the primary caregiver and increased their already high risk of gender-based violence. Despite apparent parity in labor force participation, women's wage employment opportunities in PNG are limited, which makes them more vulnerable to economic shocks. Amidst the COVID-19 crisis, women's higher participation in vulnerable service sectors and traditional roles have resulted in them being twice as likely as men to report job losses due to the pandemic.

The proposed DPO supports the government's response to the COVID-19 crisis and lays the foundations for a sustainable recovery. Pillar 1 aims to protect lives and livelihoods of the population affected by the crisis. It supports a series of key policy actions that: (1) help safeguard routine health services while delivering the rollout of COVID-19 vaccinations; (2) provide financial support to micro, small, and medium-sized enterprises (MSMEs) for job protection; and (3) ease the tax administration burden on small businesses. Pillar 2 aims to lay foundations for a more sustainable recovery over the medium-term. It supports the government's commitment to: (4) ensure fiscal and debt sustainability; (5) enhance women's voice and opportunities in decision making; (6) improve financial sector efficiency and financial inclusion; and (7) prepare PNG for impending impacts of climate change.

Relationship to CPF

The proposed DPO is aligned with the WBG's overall engagement with PNG, as laid out in the Country Partnership Framework for the period FY19–FY23 (CPF) and Country Program Adjustment Responding to COVID-19. It is also aligned with the WBG's twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner, and with the WBG's COVID-19 Crisis Response Approach Paper ('Approach Paper'). The proposed DPO is complemented by a set of other WBG operations to achieve the CPF outcomes in alignment with the Approach Paper. The first focus area of the CPF is 'improving macro and fiscal resilience', under which the first objective is to 'strengthen fiscal management'. The second pillar of the DPO is aligned with this objective, with its focus on medium-term fiscal and debt sustainability. The second focus area of the CPF is 'ensuring more effective and inclusive service delivery', under which the second objective is to 'improve access to and quality of human development services'. The first pillar of the DPO is aligned with this objective, with its focus on protecting lives and health of the population during the COVID-19 crisis. The third focus area of the CPF is 'encouraging private sector growth and job creation in the non-resource sectors', under which the first objective is to 'improve MSME competitiveness and access to financial services', and the third objective is to 'deepen economic participation of women and youth'. The first and second pillars of the DPO are aligned with this objective, with their focus on supporting MSMEs affected by the crisis, reducing the tax administration burden for small businesses, and enhancing women's voice and opportunities in decision making.

C. Proposed Development Objective(s)

The Program Development Objective is to support the Government of Papua New Guinea in: (i) protecting lives and livelihoods of the population during the COVID-19 crisis; and (ii) laying foundations for a sustainable recovery over the medium-term.



Key Results

The key results of the proposed DPO are expected to be: (1) increased share of the target population vaccinated for COVID-19; (2) reduced interruptions to the supply of personal protective equipment to health workers; (3) increased share of MSMEs, including women-led MSMEs, benefiting from government support and credit assistance from financial institutions; (4) increased share of current registered individuals that started participating in the new small business tax regime; (5) stabilization of the net present value public debt-to-GDP ratio; (6) increased women representation in SOE boards of the Kumul Consolidated Holdings Ltd.; (7) increased number of instant payment transactions performed; and (8) contained annual percentage increase in CO₂ emissions.

D. Project Description

Pillar 1. Protecting Lives and Livelihoods of the Population During the COVID-19 Crisis

***Prior Action 1.** To protect lives and health of the population during the COVID-19 crisis, the Recipient's National Department of Health has (a) enhanced safe delivery of health services and protection for the health workforce by establishing new protocols for infection prevention and control in the context of COVID-19, through endorsing the National Infection Prevention and Control Policy and issuing the National Infection Prevention and Control Guidelines, and (b) provided for the introduction and rollout of COVID-19 vaccination by defining the target groups, delivery strategy, timeline and monitoring system through adopting the National Deployment and Vaccination Plan (NDVP) and by establishing the COVAX National Technical Working Group to manage the implementation of the NDVP.*

Following confirmation of the first case of COVID-19 in PNG on March 20, 2020, PNG declared a national emergency on March 23, issued the Emergency Regulation on March 26, and passed the Emergency Act on April 2. The government has endorsed new Infection Prevention and Control Guidelines to protect the functioning of the health system in the COVID-19 context, and is now embarking on a national vaccination program, with a specific Technical Working Group to ensure the safe and effective rollout of the vaccine. As a result of this prior action, it is expected that the government will be better able to help protect lives and health of the population during the COVID-19 crisis.

***Prior Action 2.** To protect jobs in micro, small, and medium-sized enterprises (MSMEs) affected by the COVID-19 crisis, the Recipient's National Executive Council has rolled out an MSME support package, which establishes an institutional mechanism for the provision of financial assistance to MSMEs at reduced cost.*

The COVID-19 pandemic has had a very adverse impact on the operations of MSMEs in PNG in terms of reduced earnings and demand for goods and services caused by travel restrictions and movement. The government has implemented a number of measures for MSME support and job protection. This prior action focuses on the impact of the MSME support package, ensuring that they are well targeted and reach their intended beneficiaries.

***Prior Action 3.** To reduce tax administration burden for small businesses, the Recipient has (a) introduced streamlined tax processes for small businesses to reduce compliance costs, and (b) commenced the implementation of the new simplified small business tax regime.*

There are several challenges that small businesses are facing when it comes to dealing with taxes. Under the current tax regime, a small business has a very similar tax obligation to big business. Most small businesses cannot afford to hire tax agents for help which contributes to significant non-compliance issues. Hence, there is a need for a simpler tax regime for smaller businesses. This prior action supports the government policy and implementation measures to reduce tax administration burden on small businesses.

Pillar 2. Laying Foundations for a More Sustainable Recovery over the Medium-term

***Prior Action 4.** To ensure medium-term fiscal and debt sustainability, (a) the Recipient's National Executive Council has approved the 2021 Budget Strategy Paper that includes a commitment for fiscal consolidation, and (b) the Recipient has*



limited contractual obligations for new long-term external public and publicly guaranteed non-concessional debt to less than USD1,200 million from July 1, 2020 to March 31, 2021.

Before the pandemic, the government had been struggling to implement fiscal consolidation as it had to clean up its fiscal accounts from a legacy of expenditure arrears accumulated by the previous government and implement new budget programs in support of the 'Loloata Commitment'. On top of these issues, the current COVID-19 crisis has affected the economic activity and led to a substantial shortfall in tax revenue, while health spending went up. As a result, the crisis has widened budget financing gaps and heightened public debt. This prior action supports government's commitment to resume fiscal consolidation in the post-crisis period and adhere to its commitments under the IDA Sustainable Development Finance Policy.

Prior Action 5. To enhance women's voice and opportunities in decision making, the Recipient's National Executive Council has endorsed the PNG SOE Ownership and Reform Policy, laying out key principles of ownership, governance, and performance, including initiatives to increase women's representation on the boards of non-resource sector state-owned enterprises.

The government has substantial investments in state-owned enterprises (SOEs), most of which are underperforming. To improve the situation in the SOE sector, the government has embarked on a very ambitious reform of the SOE sector, focused on improving the efficiency, profitability, and accountability of SOEs. This prior action supports the overarching policy for the SOE sector reform, with a particular focus on increasing women representation in SOE boards of the Kumul Consolidated Holdings Ltd.

Prior Action 6: To increase financial sector efficiency and financial inclusion, the Recipient's Bank of Papua New Guinea has reformed the payments system infrastructure and rules to provide for instant payment transactions among regulated financial institutions participating in the Retail Electronic Payments System.

The establishment of the Retail Electronic Payments System (REPS) in July 2019 provided PNG with a multilateral platform enabling interoperability between participating financial institutions. Building on the REPS platform, BPNG has now undertaken a further reform of its payments system to provide for Instant Payment Transactions (IPTs). The provision of IPTs and the expansion of the participating institutions from the initial three is expected to increase efficiency and competition in the financial sector and augment the impact of existing financial inclusion programs for the population, through increased used of instant payments.

Prior Action 7. To prepare for impending impacts of climate change, the Recipient's National Executive Council has endorsed the Enhanced Nationally Determined Contribution 2020, focusing on reducing carbon dioxide emissions and adapting to climate change.

In 2020, despite the COVID-19 pandemic-related global and national movement restrictions, the government achieved a key milestone in strengthening its response to climate change. At the end of 2020, the government endorsed its Enhanced Nationally Determined Contributions (NDC). An NDC Implementation Plan was also developed to provide a more detailed outline of how targets will be achieved, and it will be against this work plan that annual progress will be monitored. This prior action supports government's efforts in strengthening its response to climate change.

E. Implementation

Institutional and Implementation Arrangements

The Department of Treasury is responsible for coordinating the monitoring and evaluation of the result indicators for this operation. The Department of Treasury has set up a high-level team to both coordinate the preparation of the proposed operation and coordinate the monitoring and evaluation of its impact. This team comprises Department of Treasury staff and representatives from the Treasurer's Office, and coordinates with relevant government departments and statutory authorities as required for the operation. The results indicators chosen for the operation have been selected with a view to the ready availability of data of reasonable timeliness and quality. Capacity constraints in PNG's public administration



affect the array, timeliness and quality of available data. Where possible, results indicators have been selected from those that already exist, rather than requiring new data to be produced, diverting scarce capacity from core data collection and analysis functions.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The prior action 1, on protecting the lives and health of the population, will be of benefit to vulnerable groups who are most at risk from COVID-19, through containing the pandemic, facilitating the deployment of a vaccination program, and safeguarding the healthcare system. The PNG National Deployment and Vaccination Plan for COVID-19 specifies vulnerable groups as target populations for vaccine distribution. Prior action 2 is supportive of those who are vulnerable and likely to be poor, including rural households, micro-enterprises and those working informally. Prior action 3, which related to the implementation of the new Small Business Tax regime, will directly impact those who are poor and operating micro and small businesses. The policies specified in prior action 7 could potentially benefit the poor and vulnerable as they are more likely to be adversely impacted by climate change.

Environmental, Forests, and Other Natural Resource Aspects

In general, the prior actions supported under this operation are expected to have significant positive effects on PNG's environment, forests or natural resources. While prior action 1 will lead to increased provision of medical supplies and services, as well as higher immunization rates, it will also result in increased medical waste generation which needs to be managed effectively. Prior action 3 may have minor associated risks and impacts relating to the promotion of small businesses such as land clearance, dust, and noise etc. Prior action 7 will likely have overall positive environmental impacts through the promotion of both climate mitigation and adaptation targets and actions included in the NDC.

G. Risks and Mitigation

The overall risk rating for the proposed operation is high. That is, there is a high residual risk – after accounting for the reliability of actual and planned mitigation measures – that the operation will not be successful in achieving the PDO. The potential value of achieving the PDO is very high, however. The level of risk varies across different aspects of the operation, from moderate in some areas to high in others. The aspects that are weighed most heavily in the determination of the overall risk rating are political and governance risks and macroeconomic risks, because these aspects of the operation have such a pervasive influence on the likelihood of the actions supported by the operation achieving their intended results. The other aspects of the operation where residual risks are rated as either high or substantial are fiduciary, institutional capacity for implementation and sustainability, and environment and social risks.

CONTACT POINT

World Bank

Ilyas Sarsenov, Virginia Ann Horscroft
Senior Economist



Borrower/Client/Recipient

The Independent State of Papua New Guinea
Ian Ling-Stuckey
Treasurer
Misty_Baloiloi@treasury.gov.pg

Implementing Agencies

Department of Treasury
Andrew Oaeke
Acting Deputy Secretary
Andrew_Oaeke@treasury.gov.pg

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Ilyas Sarsenov, Virginia Ann Horscroft
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Approved By

Country Director:	Paul Vallely	04-Apr-2021
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