



# Initial Poverty and Social Analysis

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March 2020

## Papua New Guinea: State-Owned Enterprises Reform Program

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

as of 16 February 2020

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

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
PNG	–	Papua New Guinea
SOE	–	state-owned enterprise

## **NOTE**

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

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## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	<input type="text" value="Papua New Guinea"/>	Project Title:	<input type="text" value="State-Owned Enterprises Reform Program"/>
Lending/Financing Modality:	<input type="text" value="Policy-Based Loan"/>	Department/Division:	<input type="text" value="PARD/PASP"/>

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The program will help strengthen the operational performance and financial sustainability of state-owned enterprises (SOEs) in Papua New Guinea (PNG), helping to improve public service delivery. The PNG Vision 2050 aims to achieve inclusive economic growth by transforming the economy, improving infrastructure, and enhancing human development; it identifies effective and efficient SOEs as key to basic public service delivery.<sup>a</sup> The Medium Term Development Plan, 2018–2022 includes key result areas around improved service delivery, improved governance, and responsible sustainable development.<sup>b</sup> It emphasizes the need to improve the operational performance of SOEs, with the objective of delivering services across PNG at high quality and affordable prices. The program is consistent with the Strategy 2030 operational priority of strengthening governance and institutional capacity, under which ADB will support SOE reforms in small island developing states to strengthen public service delivery.<sup>c</sup> The program is also in line with implementation priorities of the PNG country partnership strategy, under which ADB will support SOE reform, business legal environment improvements, and greater competition.<sup>d</sup>

#### B. Poverty Targeting

General intervention  Individual or household (TI-H)  Geographic (TI-G)  Non-income MDGs  
SOEs provide most essential services—including energy, water supply, telecommunications, ports, and air transport. The program will address poverty issues through improving SOE performance, which will in turn help them deliver better public services. Improved service delivery will have the potential of benefiting wider and more vulnerable segments of the society. Lower resource transfers and/or subsidies to SOEs through the general budget will free up public resources for potential social and developmental expenditures. The program will also help develop effective, accountable and transparent institutions (SDG 16.6).

#### C. Poverty and Social Analysis

**1. Key issues and potential beneficiaries.** The program aims to benefit the overall population of PNG through better service delivery. PNG's economy, like other island economies in the Pacific region, is characterized by its geographical remoteness, dispersed population, and vulnerability to natural disasters. Evidence from the 1996–2010 Household Income and Expenditure Survey suggests that, despite more than 11 years of sustained economic growth, poverty did not decline between 1996 and 2010.<sup>e</sup> The national poverty rate is around 37%, and social indicators are weaker than most other Pacific islands. A lack of progress on formal poverty indicators reflects PNG's slow progress against other social indicators. PNG ranks 155th out of 188 countries in the 2018 Human Development Index, making it the lowest-ranked country in the Pacific region, and the third lowest in Asia and the Pacific as a whole (after Afghanistan and Nepal). Growth has been influenced by both external factors (natural disasters, commodity price shocks, downturns in advanced economies) and internal factors (political events and ensuing uncertainty). Economic shocks and natural disasters tend to erode living standards of the poorest.

**2. Impact channels and expected systemic changes.** The proposed program will help the Government of PNG accelerate its SOE reforms and improve SOE performance through various channels. A better policy and legislative framework will separate political and commercial decision-making, promote greater private participation in service delivery, encourage competition, and help in costing community service obligations. Stronger governance and greater transparency will lead to merit-based selection of SOE board and management, clearer performance targets and monitoring, updated financial records, and better accountability. Addressing specific challenges of SOEs will enable key SOEs like PNG Power and Water PNG to improve efficiency and effectiveness. Improved financial sustainability of SOEs resulting from these changes will improve their cash flow position and allow them to invest in better services. Better financial sustainability of SOEs will also reduce potential pressure on the consolidated budget to the extent that SOE debt represents a contingent liability for the government.

**3. Focus of (and resources allocated in) the transaction TA or due diligence.** There is no transaction technical assistance. Due diligence is supported by ADB's ongoing engagement in PNG and ADB's regional and country-specific technical assistance.<sup>f</sup>

**4. Specific analysis for policy-based lending.** The policy interventions require demonstrated government commitment to improving the policy and legislative framework for SOEs, strengthening governance and transparency, and addressing SOE-specific challenges. Key reforms will help (i) separate political and commercial decision-making through defining the roles of ministers, SOE boards, and management; (ii) focus more strongly on

monitoring SOE performance; (iii) improve transparency through the timely preparation and public release of statements of corporate objectives and audited annual accounts; (iv) establish a transparent, skills-based process for SOE director selection and appointment (which would include particular measures to encourage women's representation at the board level); (v) require community service obligations to be identified and costed as part of the corporate planning process; and (vi) address the backlog of accounts with the auditor general.

## II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program?

In PNG, gender inequality is a social, economic, and political issue and remains prevalent in both urban and rural societies. PNG's constitution provides for gender equity and equality, but customary law, recognized by the constitution, discriminates against women in relation to rights and property. Many cultural and gender norms influence social practices that hinder the development of women. Women make up 48% of Papua New Guinea's population but are under-represented in the formal economy, community leadership, and national politics. As of May 2019, PNG was one of only three countries of 235 in the world that had no women in its legislative branch or parliament. Only a small proportion of women (12%) live in cities and towns. Traditional village settings mean women are often expected to take part in domestic duties including gardening, food cultivation, and child rearing. These factors, along with poor access to health and education and limited economic and political power, means women are vulnerable to domestic violence, which is thought to affect up to two-thirds of the country's women. Women in PNG have lower workforce participation compared to men, and men are almost twice as likely as women to have wage-paying jobs in the formal sector—both in urban and rural areas. Women have much lower access to cash income sources and decent work opportunities. Women traders are also more disadvantaged than men by unsafe and insanitary markets and poor transport infrastructure. Women are under-represented in SOE board and management positions. There are only two women among 48 SOE board members currently in position across 10 SOEs, the Kumul Telikom Holdings Board, and the PNG Power Board.<sup>9</sup> Women also engage in small enterprises, but often face competitive disadvantages and entry barriers.

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?  Yes  No

As part of the program, the government will incorporate measures to improve women's representation in SOE boards. The competition policy supports competitive neutrality of SOEs and women in business, including in the area of consumer protection and support to small enterprises (many of which are run by women).

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes  No

By improving service delivery, the benefits of the program for women and girls are expected to be positive.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity)  EGM (effective gender mainstreaming)  
 SGE (some gender elements)  NGE (no gender elements)

## III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The people of PNG are all potential stakeholders in this program lending operation. The implementing agencies are also key stakeholders and will be continuously consulted through participation in the technical working group that has been established. The program is aligned with and supports the implementation of the government's strategies and plans, which have been developed through nationwide consultations.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded?

The program will be based on government strategies and plans, including the Medium Term Development Plan, 2018–2022 that sets out a vision for securing PNG's future through inclusive sustainable economic growth. The implementing agencies will participate in the program design during program processing.

3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing (L)  Consultation  Collaboration  Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed?  Yes  No

The program addresses SOE policy challenges, and is not structured for poor and excluded populations to

participate directly in program design. However, the government regularly consults and ensures the participation of all stakeholders in reforms through national development planning and budget preparation.
<b>IV. SOCIAL SAFEGUARDS</b>
<b>A. Involuntary Resettlement Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process? As above, a resettlement framework will be prepared if resettlement is essential.
<input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix
<input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None
<b>B. Indigenous Peoples Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?
<input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix
<input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None
<b>V. OTHER SOCIAL ISSUES AND RISKS</b>
1. What other social issues and risks should be considered in the project design?
<input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment (L)
<input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability
<input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____
2. How are these additional social issues and risks going to be addressed in the project design?
No social issues are expected. The government has a policy of no labor retrenchment. In the event public-private partnerships or privatization measures indicates a possibility of laying off workers, the program will incorporate mitigation measures. It is envisaged that this risk will be minimal.
<b>VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>
1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No (Not applicable)
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the transaction TA or due diligence?
Consultancy support for designing policy reforms will take into account poverty, gender, and social issues as appropriate for specific reform actions.

<sup>a</sup> Government of PNG. 2009. *Papua New Guinea Vision 2050*. Port Moresby.

<sup>b</sup> Government of PNG. 2018. *Medium Term Development Plan 3 2018–2022*. Port Moresby.

<sup>c</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>d</sup> ADB. 2016. *Pacific Approach, 2016–2020*. Manila.

<sup>e</sup> Government of Papua New Guinea. 2011. *Household Income and Expenditure Survey: Summary Tables and Statistics*. Port Moresby.

<sup>f</sup> ADB. 2019. *Regional Technical Assistance for Private Sector Development Initiative, Phase IV*. Manila; and ADB. 2019. *Papua New Guinea: Supporting State-Owned Enterprise Reforms*. Manila.

<sup>g</sup> Data are provided by KCH's human resources division.