



Report and Recommendation of the President to the Board of Directors

INTERNAL

Project Number: 53424-003
November 2022

Proposed Policy-Based Loan for Subprogram 3 Papua New Guinea: State-Owned Enterprises Reform Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 26 October 2022)

Currency unit	–	kina (K)
K1.00	=	\$0.28400
\$1.00	=	K3.52113

ABBREVIATIONS

ADB	–	Asian Development Bank
ANL	–	Air Niugini Limited
COVID-19	–	coronavirus disease
DOT	–	Department of Treasury
GBT	–	General Business Trust
GDP	–	gross domestic product
ICCC	–	Independent Consumer and Competition Commission
IMF	–	International Monetary Fund
KCH	–	Kumul Consolidated Holdings
LNG	–	liquefied natural gas
NEC	–	National Executive Council
P3F	–	post-program partnership framework
PFM	–	public financial management
PNG	–	Papua New Guinea
PPL	–	PNG Power Limited
PPP	–	public–private partnership
SMP	–	staff-monitored program
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

In this report, “\$” refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 53424-003	
Project Name	State-Owned Enterprises Reform Program, Subprogram 3	Department/Division	PARD/PASP
Country	Papua New Guinea	Executing Agency	Department of Treasury
Borrower	Papua New Guinea		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=53424-003-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=53424-003-PortAtaGlance		
2. Sector		Subsector(s)	
✓ Public sector management	Reforms of state owned enterprises		ADB Financing (\$ million)
			250.000
		Total	250.000
3. Operational Priorities		Climate Change Information	
✓ OP2: Accelerating progress in gender equality		GHG reductions (tons per annum)	0
✓ OP6: Strengthening governance and institutional capacity		Climate Change impact on the Project	Low
		ADB Financing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
		Cofinancing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.b		Effective gender mainstreaming (EGM)	✓
SDG 5.5			
SDG 16.6		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		250.000	
Sovereign Programmatic Approach Policy-Based Lending (Regular Loan):		250.000	
Ordinary capital resources			
Cofinancing		1.000	
New Zealand - Program grant (Not ADB Administered)		1.000	
Counterpart		0.000	
None		0.000	
Total		251.000	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to Papua New Guinea (PNG) for subprogram 3 of the State-Owned Enterprises Reform Program.

2. The program, comprising three subprograms, aims to enhance the operational performance of PNG's state-owned enterprises (SOEs), which are key to delivering a host of essential services. The programmatic approach has allowed for sequencing and deepening of reforms over time. Policy reforms under subprogram 3, which is the final subprogram, will further strengthen legislative and policy frameworks for SOEs; enhance governance and transparency; and improve the financial sustainability of priority SOEs. Prior actions achieved under subprograms 1 and 2 have been sustained, and are built upon through subprogram 3 actions.¹ The program is being delivered in close coordination with other development partners, notably the governments of Australia and New Zealand both of whom also provide complementary technical assistance (TA), and is aligned with the International Monetary Fund's (IMF) staff-monitored program (SMP) for PNG.² The Government of New Zealand is providing parallel grant cofinancing of \$1 million (para. 29). Building on continued strong political commitment, a post-program partnership framework (P3F) has been agreed with the government to support implementation and progression of reforms beyond the current program.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Country context.** PNG is the world's third largest island nation. The Asian Development Bank (ADB) classifies PNG as fragile and conflict-affected, and PNG self-identifies as a small island developing state.³ Its location on the Pacific Ring of Fire and the related high exposure to natural hazards makes the country prone to frequent shocks that undermine economic growth and development. PNG's geography further presents a challenge to providing essential services across the nation. PNG has seen slow progress on poverty reduction and social development over the past decade. Latest available ADB estimates suggest that 29.6% of the population lived below the national poverty line in 2021.⁴ Gender inequality is a significant challenge, and women are underrepresented in the government, limiting their influence on public policy. In 2019, PNG ranked 161st of 162 economies on the gender inequality index.⁵ The economy is highly resource dependent, with exports of liquefied natural gas (LNG), gold, and other mineral resources accounting for more than 70% of goods exports and 27% of gross domestic product (GDP) in 2020. In the Worldwide Governance Indicators, PNG had a percentile rank of 20.2 for political stability and 18.7 for government effectiveness in 2020.⁶

¹ ADB. [Papua New Guinea: State-Owned Enterprises Reform Program, Subprogram 1](#); and ADB. [Papua New Guinea: State-Owned Enterprises Reform Program, Subprogram 2](#).

² IMF. 2022. [Papua New Guinea: Request for a Staff-Monitored Program; and Staff Report](#). *IMF Country Report No. 2022/055*. Washington, DC. The IMF's last SMP ran from 7 December 2021 to 15 June 2022, and supported strengthening oversight and management of SOEs.

³ ADB. 2021. [Fragile and Conflict-Affected Situations and Small Island Developing States Approach](#). Manila.

⁴ ADB estimates based on the World Bank's Poverty and Inequality database and [PovcalNet Database](#). Headcount ratio uses \$1.90 a day (2011 purchasing power parity) poverty line. World Bank.

⁵ United Nations Development Programme. [Gender Inequality Index](#) (accessed 17 August 2022).

⁶ World Bank. [Worldwide Governance Indicators](#) (accessed 10 September 2022).

4. **Macroeconomic performance.** PNG's real GDP grew 7.7% annually during 2013–2016.⁷ Growth was driven by LNG investment and exports. Average growth fell to 1.3% during 2017–2018 because of softer commodity prices and disasters caused by natural hazards, including a major earthquake in 2018. Following the recovery in energy and mineral production, GDP grew 4.5% in 2019. After expansionary policies led to fiscal deficits averaging 5.6% of GDP during 2013–2016, fiscal consolidation helped to narrow the deficit to 2.6% during 2017–2018. Fiscal management was guided by the comprehensive Medium-Term Fiscal Strategy, 2018–2022, which included strategies to shore up revenues, control expenditures, and manage debt.⁸ However, with revenue collection lower than expected—largely because of low global commodity prices—and with substantial arrears payments to utilities, the fiscal deficit increased to 5.0% of GDP in 2019. In February 2020, the government entered into an SMP with the IMF, which sought to narrow the fiscal deficit to less than 2.0% of GDP in the medium term with fiscal consolidation, and bring public debt down to less than 40.0% of GDP by 2026.⁹

5. **Economic and fiscal impacts of COVID-19.** However, the coronavirus disease (COVID-19) pandemic has undermined the government's fiscal consolidation efforts. Mobility restrictions and export losses led to GDP contracting by 3.5% in 2020, 5.6 percentage points below pre-COVID-19 growth estimates (Table 1). Dampened revenues and stimulus expenditures led to a fiscal deficit of 8.6% of GDP in 2020, as public debt rose to 47.1% of GDP. Lockdowns and limitations on domestic and international travel also impacted SOEs, especially Air Niugini Limited (ANL), which required significant financial support from the government.¹⁰ The IMF assessed PNG to be at high risk of external and overall debt distress in 2020.¹¹ The economy contracted further in 2021, but the fiscal deficit narrowed to 6.7% of GDP, based on improving revenues (including taxes) and expenditure controls. However, the easing of mobility restrictions also led to community transmission of COVID-19.¹² Case numbers have dropped in the second half of 2022, but this is likely a reflection of low testing rates. Vaccination rates remain low at just over 5% of the adult population, although the capital city (Port Moresby) shows more than 40% fully vaccinated. Vaccine hesitancy remains an issue.

6. **Macroeconomic outlook.** Despite the challenges, PNG is witnessing a recovery, with the economy expected to grow by 3.5% in 2022 and 4.9% in 2023. This reflects gradual reopening of borders in 2022, increased output in the mineral sector, higher commodity prices, and increased capital expenditures.¹³ A planned new LNG project that is expected to commence in 2023 could lift growth in the medium term. However, this outlook is associated with significant uncertainty. Disasters caused by natural hazards are frequent, with some expected to become more numerous and intense with climate change.¹⁴ Low vaccination rates and the potential emergence

⁷ Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2). Macroeconomic data is based primarily on ADB, IMF, and PNG Department of Treasury estimates.

⁸ Government of PNG, Department of Treasury. 2017. [Medium Term Fiscal Strategy 2018–2022](#). Port Moresby.

⁹ IMF. 2020. [Papua New Guinea: 2019 Article IV Consultation and Request for Staff Monitored Program—Press Release, Staff Report, and Statement by the Executive Director for Papua New Guinea](#). *IMF Country Report No. 20/95*. Washington, DC. The SMP included measures and targets to tighten expenditure controls, reinvigorate revenue reforms, restore exchange rate flexibility, initiate SOE reforms, and deal with corruption.

¹⁰ In 2020, financial support received by SOEs is estimated at about \$30.8 million.

¹¹ IMF. 2020. [Papua New Guinea: Request for Disbursement under the Rapid Credit Facility—Press Release: Staff Report; and Statement by the Executive Director for Papua New Guinea](#). *IMF Country Report No. 20/211*. Washington, DC. The downgrade in debt distress risk is attributed to the impacts of COVID-19.

¹² As of 25 October 2022, there have been 45,365 confirmed cases and 668 deaths in PNG. World Health Organization. [Coronavirus Disease Dashboard, Papua New Guinea](#) (accessed 24 October 2022).

¹³ ADB. 2022. [Asian Development Outlook 2022: Mobilizing Taxes for Development](#). Manila.

¹⁴ Earthquakes are fairly common in PNG. A large earthquake in 2018 hit PNG's highland region, disrupting mining and petroleum and gas production, damaging key infrastructure, and displacing 180,000 people. More recently, an

of new COVID-19 variants also threaten the projected economic recovery. Increased global uncertainty can affect medium-term economic growth. Inflation is projected to remain elevated over the medium term, and poses potential risks to the outlook.

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

Item	2018	2019	2020e	2021e	2022f	2023f	2024f
Real GDP growth (% change)	(0.3)	4.5	(3.5)	(0.2)	3.5	4.9	5.0
Change in CPI (% annual average)	4.7	3.6	4.9	4.5	6.5	5.1	5.0
Central government budget							
Total revenue	17.7	16.3	14.2	14.9	15.9	16.1	16.8
of which: Tax revenue	13.2	13.0	11.5	11.9	12.3	13.1	13.8
of which: Nontax revenue	2.2	1.2	1.0	0.7	1.8	1.5	1.4
of which: Grants	2.3	2.1	1.7	2.2	1.8	1.6	1.5
Total expenditure	20.3	21.3	22.7	21.6	21.8	20.5	20.0
of which: Recurrent	14.4	14.0	14.6	13.7	13.2	12.4	12.1
of which: Capital	5.9	7.3	8.1	7.8	8.6	8.1	7.9
Fiscal balance	(2.6)	(5.0)	(8.6)	(6.7)	(5.9)	(4.4)	(3.3)
Primary balance	(0.2)	(2.4)	(6.0)	(4.3)	(3.6)	(2.2)	(1.1)
Public debt	38.2	40.2	47.1	51.6	51.9	52.5	52.6
of which: external debt	15.1	17.1	21.0	24.6	25.9	26.2	26.7
Nominal GDP (\$ billion)	24.1	24.7	24.7	26.6	29.4	31.7	33.4

() = negative, CPI = consumer price index, e = estimate, f = forecast, GDP = gross domestic product.

Note: Numbers may not sum precisely because of rounding.

Sources: Asian Development Bank, International Monetary Fund, and Papua New Guinea Department of Treasury estimates. National Budget: actual fiscal data (2016–2021), projections (2022–2025); GDP data is National Budget data; and 2020 and 2021 are budget estimates.

7. Overall, ADB assesses that the general direction of macroeconomic policies in PNG is sound. The ongoing economic recovery and gains from rising commodity prices in 2022 are expected to see the fiscal deficit decline to 5.9% of GDP in 2022, and fall further to 3.3% of GDP in 2024.¹⁵ The government has expressed strong commitment to continue reforms and resume its fiscal consolidation path as part of the 2022 national budget, to rebuild fiscal buffers and strengthen debt sustainability. It aims to eliminate the primary deficit by 2025. Consolidation efforts are expected to focus on shoring up revenues and expenditure rationalization to increase space for social and development spending. The government projects public debt levels to peak at about 52.6% of GDP in 2024 and decline thereafter, falling below government's target 40% threshold by 2027. PNG remains at high risk of debt distress, and the economy is susceptible to export and other shocks. However, the IMF assesses debt to be sustainable over the medium term, based on the government's commitment to fiscal stabilization and subject to its following a conservative financing strategy. Inflation is being controlled through appropriate monetary policy measures, with the government prepared to further tighten monetary policy as needed.¹⁶ The government is implementing measures to strengthen liquidity management and monetary operations, and clearing a backlog of unfilled foreign exchange orders at banks.

8. **State-owned enterprises in Papua New Guinea.** SOEs in PNG provide many essential public services across the country, including energy, water supply, telecommunications, ports,

earthquake of 7.6 magnitude was experienced on 11 September 2022, centered on the Markham Valley. Instances of droughts and flooding are expected to increase with climate change impacts. For example, droughts in 2015–2016 reduced water supply and led to several mines closing down to conserve water.

¹⁵ Government of PNG. 2022. *National Budget*. Port Moresby. Reappointment of the incumbent Prime Minister following the July 2022 national elections underpins expectations of a stable policy environment.

¹⁶ IMF. 2022. [Papua New Guinea: 2022 Article IV and Review of the Staff Monitored Program—Press Release: Staff Report; and Statement by the Executive Director for Papua New Guinea](#). *IMF Country Report No. 2022/305*. Washington, DC.

and air transport. The government has majority ownership in nine non-mining and non-petroleum SOEs that are held in a General Business Trust (GBT). The GBT is managed by Kumul Consolidated Holdings (KCH), a 100% state-owned statutory corporation established under the Kumul Consolidated Holdings Act, which is mandated to manage these assets for economic, environmental, and social value.¹⁷ KCH is headed by a chief executive officer and reports to the National Executive Council (NEC) through the minister for state enterprises. Government investment held in these nine SOEs totaled about \$2.8 billion (11% of GDP) in 2021.¹⁸

9. **State-owned enterprise performance.** Historically, performance across SOEs in PNG has been poor.¹⁹ This has affected the economy's competitiveness, growth, and development outcomes through weak quality, limited coverage, and high cost of services. Average electricity prices are higher in PNG than in countries with higher household purchasing power; and grid reliability is low because of poor infrastructure and weak maintenance, and a legacy of poorly negotiated power purchase agreements by PNG Power Limited (PPL) (footnote 18). Against the government's target of connecting 70% of households to the power distribution grid by 2030, only 23% of households were connected in 2019. Reliability and network resilience affect the fixed and mobile phone services and internet services provided by Telikom PNG Limited. It had less than 10% market share in the mobile business in 2018. Water PNG Limited, which delivers water, sewerage and sanitation services across PNG, provided only 35% of the urban population with water and 13% with sewerage in 2019. ANL, which provides domestic and international air services, was plagued by high overhead costs and low working capital, affecting its service quality and capacity to serve international routes in particular.²⁰ The need for periodic capital injections into SOEs affected the government's capacity to prioritize essential development expenditures. Furthermore, SOEs have high levels of debt, constituting a contingent liability and fiscal risk for the government.²¹ As of July 2022, debt held by SOEs (including KCH) was estimated at \$1.74 billion (5.9% of GDP).

10. **Key constraints.** The weak performance of SOEs can be attributed to underdeveloped policy and legislative frameworks and weak corporate governance, leading to a lack of transparency and accountability (paras. 11–15). The impacts of the pandemic have further exacerbated the situation.

11. **Inadequate policy and legislative frameworks.** Prior to the program, a weak overarching policy and legal framework undermined commercial principles of SOE performance. The amendments to the KCH Act supported through subprograms 1 and 2 established the legal foundation for improved frameworks by enabling KCH to better monitor SOE performance, reducing political influence on commercial decision-making, introducing clear processes for the selection and ongoing performance appraisal of SOE boards and their directors, strengthening the inclusion of women in director appointment processes, and clarifying identification and costing

¹⁷ Government of PNG. 2021. *Kumul Consolidated Holdings Authorisation Act 2002*. Port Moresby (as amended). Reforms to the KCH Act have been supported by subprograms 1 and 2. The government owns the majority of nine SOEs in the GBT: ANL, Telikom PNG Limited, Motor Vehicles Insurance Limited, National Development Bank, PNG Power Limited, PNG Ports Corporation Limited, Post PNG Limited, PNG Dataco Limited, and Water PNG Limited.

¹⁸ KCH. 2022. [2021 Annual Review](#). Port Moresby.

¹⁹ ADB. 2012. [Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Papua New Guinea](#). Manila. Data in this paragraph refers to the pre-program situation.

²⁰ ANL had a domestic market share of 64% in 2019, as the national carrier of PNG.

²¹ Only SOE debt that has been guaranteed by the government and has been called upon is recorded in the government's consolidated debt figures in the budget. Several SOE loans have been contracted without NEC approval, and more than half without adequate economic and financial viability assessments. Further details on historic decisions and debt of SOEs are in subprogram 1 (footnote 1).

of community service obligations.²² Implementation of the amended KCH Act has commenced, and implementation of reforms under the act will need to be deepened.

12. Creating a level playing field among SOEs and private sector businesses and mobilizing additional resources for investments in improving service delivery contribute to increased choices for consumers, reduced prices, and improved service quality and access. Subprograms 1 and 2 supported the development of a competition policy and guidelines to improve economic efficiency through the promotion and maintenance of fair and effective competition in all markets. However, the legal basis to support the implementation of competitive neutrality principles needs to be further developed. In addition, development of an enabling regulatory framework for public–private partnerships (PPPs), which is necessary for attracting investment to improve service provision and supporting private sector development, has been hampered by the absence of appropriate legal frameworks. Subprograms 1 and 2 supported drafting of amendments to the PPP Act (2014) and PPP regulations to strengthen the regulatory framework governing PPP arrangements. Implementation of the act needs to be strengthened, as shifting corporate responsibilities for PPPs among ministries has created uncertainty and lack of ownership. Moreover, the decision-making bodies envisaged under the act—the PPP steering group and its committees (intended to promote, coordinate, and analyze PPP arrangements)—are yet to be fully implemented.²³

13. **Weak corporate governance.** The rules and practices to determine how KCH and its SOEs operate and align with stakeholder interests required significant strengthening on multiple fronts. The two previous subprograms strengthened governance mechanisms by introducing processes for transparent, merit-based appointment of qualified and experienced personnel to SOE boards, in line with the KCH Act as amended under subprogram 2. They also sought to address a lack of diversity on boards—only 4% of board directors were female in 2019. However, director performance appraisals, which have been shown to increase a board’s effectiveness and accountability, were not in place prior to subprogram 3.²⁴

14. Strengthening KCH’s oversight functions is hampered by a lack of timely and transparent reporting and disclosure by SOEs. Most SOEs did not produce timely annual financial statements prior to the program, resulting in a major accounting backlog. The previous subprograms started a phased approach to address these gaps, bearing in mind capacity constraints, but further efforts are required. Audited annual financial statements were also not publicly available, nor were the annual reports for KCH and the GBT. Moreover, most SOEs did not prepare statements of corporate intent or systematically develop key performance indicators. This precluded effective management decision-making and board and shareholder oversight. Although subprograms 1 and 2 started to address these issues systematically, additional improvements are needed to implement corporate planning guidelines across all SOEs and improve performance management and oversight. Another issue concerned community service obligations undertaken by SOEs on behalf of the government. These are not always well defined, but the cost of meeting them is often high. For example, PPL estimates its community service obligations at about \$7.5 million per year,

²² Independent Public Business Corporation of Papua New Guinea (Kumul Consolidated Holdings) (Amendment) Act (2015). Prior to its amendment in 2021 under the program, the KCH Act provided scope for political considerations to override commercial imperatives, including in board composition of government majority–owned SOEs. Performance evaluation procedures for SOE board members were unclear. Efficiency and profitability were not emphasized as SOE objectives. A community service obligation is an activity that would not be pursued by an SOE operating purely on a commercial basis but is done because it has been requested by the government to meet a public policy objective.

²³ ADB. 2020. *Public–Private Partnership Monitor: Papua New Guinea*. Manila.

²⁴ J.A. Conger, D. Finegold, and E. E. Lawler III. 1998. *Appraising Boardroom Performance*. *Harvard Business Review*. January–February.

close to 3% of its revenues (footnote 18). The financial position of SOEs can be negatively impacted should the government or other users fail to recompense community service obligations. With support from previous subprograms, the government has piloted a framework for costing community service obligations, as opposed to the prior practice of opaque cross-subsidization; however, this has yet to be fully implemented across the KCH portfolio of SOEs. Finally, the procurement processes of SOEs, including large ones like PPL, are not sufficiently robust, leading to corruption risks and poor value for money. Procurement processes also required review to promote greater female participation in public procurement.

15. Financial challenges of specific state-owned enterprises. Several large SOEs that deliver key services require support to address significant financial challenges. ANL was particularly affected by the pandemic, which impacted travel services. Once travel restrictions eased, ANL showed a small net operating after-tax profit of about \$5.4 million in 2021, up from a loss of \$21.0 million in 2019 when the program started. However, it carries a heavy debt burden of about \$33.7 million, which impacts its cash flow and financial position. Similarly, PPL, which services all major urban areas and some rural communities, reported a loss of \$22.3 million equivalent in 2021 (same as in 2019). Generation shortfalls and operational inefficiencies because of aging infrastructure, poor revenue collection, and power purchase agreements that are high-cost but difficult to unwind are behind some of these losses. More rigorous management and controls could possibly have prevented this. Telikom PNG Limited reported a net operating loss of \$20.8 million in 2021. Difficulty in accessing credit for needed investments in network upgrades and expansion led to poor quality of services, while poor cash collection affected availability of working capital. Unpaid bills from government clients, particularly for utilities and air transport, continue to present a major challenge to SOEs in terms of cash flow management. Accumulated arrears owed by the government to SOEs were estimated at about \$100 million in the first half of 2022. On the SOE side, opportunities to improve financial position remain unutilized. SOEs continue to hold noncore assets that could be divested to reduce debt and/or improve cash flows, while these diverted attention and resources away from their core mandates. There are also potential operational efficiencies that are not being realized, including from undertaking PPP projects in a transparent manner following commercial principles. Prior to the program, one SOE (Eda Ranu) served the water needs of the national capital district while another (Water PNG) served the rest of the country, making coordination difficult and raising operating costs. The government estimated that merging the two entities could result in cost savings of \$2.8 million annually, which could be used to provide services to more rural areas.²⁵

16. Government reform strategy. The government aims to improve the operational performance of SOEs, with the broader objective of delivering services across PNG at high quality and affordable prices.²⁶ The program is aligned with the government's SOE reform blueprint, approved by the NEC in November 2019, laying out reforms to be undertaken in 2019–2022 to strengthen overarching corporate governance and policies and tackle SOE-specific challenges. The blueprint emphasizes the need for SOEs to be accountable and financially sustainable and recognizes the key constraints in improving SOE performance (paras. 11–15). The Prime Minister, after being reelected in the 2022 national elections, reiterated the importance of SOE reform in the government's agenda in his opening address to the PNG Parliament in August 2022, with specific reference to ADB's support.²⁷ The incumbent minister for SOEs and the minister for the treasury were also reappointed following the election, providing continuity for the program.

²⁵ F. Mou. 2017. [Push for Eda Ranu and Water PNG merger](#). *Loop PNG*. 13 October.

²⁶ Government of PNG. 2018. *Medium Term Development Plan III, 2018–2022*. Port Moresby.

²⁷ J. Marape. 2022. [Inaugural Address by Prime Minister Honorable James Marape](#). *PM James Marape News Page*. 9 August.

17. **Consistency with ADB strategy.** The program is consistent with ADB's Strategy 2030 operational priorities of strengthening governance and institutional capacity (including SOE reforms to improve service delivery) and accelerating progress in gender equality.²⁸ The program strengthens governance and institutional capacity of SOEs with the aim of improving service delivery and financial performance. Reform targets include strengthening corporate governance and oversight of SOEs. Several reforms support gender equality, including increasing the representation of women on SOE boards, strengthening reporting on gender indicators, and carrying out gender analysis on new investments in essential services. The program aligns with the priorities of ADB's country partnership strategy for PNG, 2021–2025, under which ADB supports SOE reform, business environment improvement, and greater competition.²⁹

B. Policy Reform, ADB's Value Addition, and Sustainability

18. **Program description.** The program features policy actions across three reform areas to improve the operational performance of SOEs, in line with the government's agenda: (i) legislative and policy framework strengthened, (ii) governance and transparency enhanced, and (iii) financial sustainability of specific SOEs improved. Subprograms 1 and 2 supported key legislative amendments for SOE governance and PPPs, and the development of new policies (including policies for SOE ownership and competition) and guidelines; and started addressing the corporate governance shortcomings of SOEs (including clearing the backlog of SOE audited financial reports, improving corporate planning and reporting, and implementing transparent recruitment processes). Subprogram 3 builds on these foundations by deepening implementation of upgraded policies and legislation; addressing remaining gaps in corporate governance; progressing implementation of transactions and reforms of specific SOEs; and further institutionalizing, operationalizing, and rolling out key reforms. Reform targets account for implementation capacity constraints and disruptions caused by COVID-19.

19. Subprogram 3 comprises 15 prior actions across the three reform areas, all of which have been fully complied with. Some adjustments have been made to two prior actions: (i) prior action 3.10 on the implementation of the ANL Recovery Plan has been changed to take account of market developments and the impacts of COVID-19 (para. 24), and (ii) prior action 3.11 on the divestment of noncore assets by ANL has been clarified to take into account market conditions (para. 24).³⁰ The changes are consistent with program objectives and do not change expected outcomes and impacts. ADB TA supported implementation across reform areas (para. 28).³¹

20. **Reform area 1: Legislative and policy framework strengthened.** Subprogram 3 actions completed under this reform area provide strong regulatory and policy support to competition policy and PPPs. Following the approval of the National Competition Policy under subprogram 1, subprogram 2 supported the Ministry of State Enterprises and the Department of Treasury (DOT) in developing general competitive neutrality principles that are in line with international guidelines and global goals for sustainable development, including gender equality.³² Subprogram 3

²⁸ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

²⁹ ADB. 2020. [Country Partnership Strategy: Papua New Guinea, 2021–2025—Achieving Diversified, Sustained, and Inclusive Growth](#). Manila.

³⁰ Two prior actions have been made more specific: (i) prior action 3.8 to indicate that the community service obligation costs of Post PNG were funded; and (ii) prior action 3.14 to indicate that NEC approved undertaking a partial privatization for Telikom PNG Ltd.

³¹ ADB. [Regional: Pacific Private Sector Development Initiative, Phase IV](#); and ADB. [Papua New Guinea: Supporting State-Owned Enterprise Reforms](#).

³² The general competitive neutrality principles require SOEs to (i) achieve a commercial rate of return on assets;

continued the strengthening of competition and consumer protection. Under the subprogram, NEC approved amendments to the Independent Consumer and Competition Commission (ICCC) Act (2002) for submission to Parliament on 29 September 2022.³³ The amendments will support the reporting of general competitive neutrality principles by SOEs, the process for investigating issues raised, the mandate to provide advice on competition matters, and monitoring of the participation of women's businesses in public procurement. This makes PNG a leader in the Pacific region on competition policy. On the framework for PPPs, subprogram 2 supported NEC submission of amendments to the PPP Act to Parliament for approval. The amendments included the establishment of the PPP Centre and the process for recruitment of its chief executive officer. Under subprogram 3, Parliament approved the PPP Amendment Act on 4 March 2022. Subprogram 3 also supported NEC endorsement on 8 June 2022 of PPP regulations to make the amended PPP Act fully operational. In addition, the PPP Steering Group on 22 September 2022 approved with immediate effect guidelines on roles and responsibilities for the new PPP Centre, in accordance with the amended PPP Act, and on utilization of budget allocations for the PPP Centre's operations during 2022–2024. The budget allocations will be sustained on a rolling basis, with the initial approval covering 2022–2024. The PPP Centre is tasked with advising the government on whether a PPP modality is appropriate for developing a project, and leading line agencies and SOEs through various stages of project preparation and procurement. Its operation will formalize and institutionalize improvements in the PPP enabling environment supported through the program.

21. Reform area 2: Governance and transparency enhanced. Subprograms 1 and 2 institutionalized processes and guidelines for the transparent and merit-based appointment and assessment of SOE board directors in line with the amended KCH Act (para. 11). Subprogram 3 further supported implementation of the guidelines for all new director appointments. A total of 16 new SOE directors were appointed during the subprogram 3 implementation period. Supported by the program, female representation on SOE boards increased more than threefold. Compared with two of 48 prior to the program, 10 of 66 SOE directors are women as of August 2022 (or 15% against a program target of at least 12%). ADB efforts have been complemented by continued work in maintaining and updating a database of women directors and ongoing training of suitable women candidates for director positions by the New Zealand Institute of Directors.³⁴ Subprogram 3 also supported implementation of the process for assessing directors' performance against key performance indicators established under subprogram 2. An assessment of the performance of 39 directors was completed on 31 August 2022, to feed into performance management.³⁵

22. To strengthen compliance and provide information for effective oversight, subprograms 1 and 2 followed a phased approach to eliminate the backlog of audited financial statements for KCH and SOEs in the GBT. Subprogram 3 builds on this approach and extends it to more SOEs. Audited financial statements for all nine SOEs were completed for 2019 and 2020 (against a target of eight for 2020), and statements for six SOEs were completed for 2021.³⁶ To ensure the

(ii) be tax neutral—i.e., pay all taxes and duties; (iii) be regulation neutral—i.e., comply with all laws and regulations; and (iv) be debt neutral—i.e., borrow at commercial rates or include charges to account for implicit and explicit government guarantees.

³³ The draft ICCC (Amendment) Bill 2022 was cleared by the state solicitor and a certificate of necessity was issued on 3 May 2022.

³⁴ This initiative is supported through the Government of New Zealand's Ministry of Foreign Affairs and Trade.

³⁵ Performance assessments of the other 27 directors in position as of August 2022 were not due within the program period because (i) they had not been in position long enough for their performance to be assessed, or (ii) a majority of directors on the SOE boards were new, and the board had not met enough times for performance assessments to be conducted. These directors' performances will be reviewed in the next round of assessments, expected in 2023.

³⁶ The six SOEs are Telikom PNG Ltd., Water PNG Ltd., Motor Vehicles Insurance Limited, National Development Bank, PNG Ports Corporation Ltd., and PNG Dataco Ltd.

sustainability of this significant effort, subprogram 3 also supported appointment of auditors for all SOEs for auditing 2022 statements. ADB is providing TA support to KCH for SOEs that still require additional resources to meet the 2023 KCH reporting timeline (footnote 31). To further increase transparency, all completed audited financial statements were published on the KCH website. Under subprogram 3, the KCH board also approved the 2022 corporate plans and statements of corporate intent of all nine SOEs (against a target of eight), building on the seven prepared for 2021 under subprogram 2. Also under subprogram 3, the KCH board continued to improve the quality and public disclosure of its KCH annual reviews started under the program, by disclosing the 2021 annual review on its website and enhancing its content to include financial accounts, reporting on gender diversity, and summary statements of corporate intent of SOEs in the GBT. These improvements in reporting, and publishing corporate plans with associated capital budgets along with financial statements, are significant steps in the PNG context, where many SOEs were not preparing corporate plans or publishing financial statements prior to the program.

23. Following approval of a procurement framework for PPL under subprogram 2 to enhance clarity and efficiency, subprogram 3 supported implementation of PPL's enhanced procurement processes. This will reduce procurement time significantly, increase value-for-money and transparency, and improve cash management and information for management. The framework also provides guidance on supporting women's businesses to participate in procurement processes. Implementation of the framework commenced on 19 May 2022. As testament to the framework's benefits, KCH will adopt the same framework for other SOEs as part of the P3F (para. 27). Accurately identifying and capturing information on community service obligations is important as it gives greater planning capability to SOEs and allows them to share this information with KCH and DOT. Building on a pilot in Post PNG under subprogram 2, subprogram 3 expanded the community service obligation costing exercise to all SOEs in the GBT (against a target of five), with Post PNG's estimated obligation being fully funded through the 2022 government budget.

24. **Reform area 3: Financial sustainability of specific state-owned enterprises improved.** Subprogram 2 supported SOEs providing critical services such as ANL, Water PNG, Telekom Ltd., and PPL in strengthening financial sustainability. ANL progressed the implementation of its recovery plan under subprogram 2. Some changes were made to prior action 3.10 to reflect COVID-19 impacts and market conditions. First, ANL management decided to postpone implementing a new financial model at a time when key decisions regarding operations needed to be urgently made as part of the ANL recovery plan. The old model was found adequate for medium-term financial modeling, although areas of improvement were noted. The sub-action on adopting a new fit-for-purpose financial model was consequently dropped from subprogram 3, although ANL will still implement it after the program period.³⁷ Second, ANL closed all six of its international sales offices—exceeding the program target of only one.³⁸ Third, progress on completing the aircraft selection process for re-fleeting was slowed because of COVID-19 impacts on the airline industry. ANL completed the business case for the replacement of two Boeing 767 wide-body aircrafts with an expected improvement in profits of about K21.6 million equivalent annually. Replacement aircraft have been identified through an open competitive process; commencement of commercial negotiations was approved by the ANL board on 8 August 2022, and negotiations are ongoing with the identified supplier. Prior action 3.11 was further clarified as ANL continued divesting noncore assets. Under subprogram 3, the ANL board approved the sale of noncore properties totaling K3.51 million (against a program target of at least

³⁷ The action will be taken forward with support from the Government of Australia, which funds consultants to review ANL's present systems and propose options for improvement. Proposal submission for the tender closed 22 August 2022. This is reflected in the P3F.

³⁸ Online sales and sales via travel agents had already taken over as the primary means of ANL bookings. ANL also diverted offshore airline numbers to the Port Moresby-based call center.

K2.0 million) through a competitive sale process. The sales have progressed, and will be completed as soon as proceeds from buyers are received.³⁹

25. In the water sector, subprogram 2 supported parliamentary approval of the National Water Supply and Sanitation (Amendment) Bill 2019. This facilitated the operationalization of the merger of Eda Ranu into Water PNG effective December 2021 under subprogram 3 to realize efficiencies and streamline operations. Under subprogram 3, PPL in August 2022 issued a competitive tender for a proposed Gazelle Solar Independent Power Producer Project, which is a generation and storage facility, based on a PPP prefeasibility assessment. This followed PPL board approval under subprogram 2 of the decision to undertake the PPP, guided by commercial principles to reduce electricity costs and reliance on diesel. Subprogram 3 supported the government in its commitment to partially privatize suitable SOEs to improve their sustainability and service delivery. NEC approved a decision on 16 December 2021 to undertake a partial privatization of Telikom PNG Limited, with the aim of introducing high-quality expertise to the strategically important telecommunications sector. The potential private partners have been identified and commercial negotiations are ongoing.

26. Lastly, after subprogram 1 supported the settlement of government arrears owed to ANL, subprogram 2 continued reforms through an NEC decision to not allow the buildup of arrears to SOEs, and settled existing arrears with PPL. Under subprogram 3, DOT further implemented the NEC decision through payment of undisputed invoices to four SOEs.⁴⁰ The settlement of arrears will improve cash flow for SOEs and help move the relationship between the government and SOEs to a more commercial footing.

27. **Post-program partnership framework.** The government is committed to continuing the design and implementation of reforms across the program's three reform areas (paras. 20–26) through the P3F.⁴¹ Under reform area 1, the Department of Finance has committed to capacitate the PPP Centre to fully implement its mandate by recruiting and training of key staff, developing the administrative structures, preparing suitable protocols and policies, and ensuring adequate financing for the center. Capacity building of the PPP Centre beyond the program will be carried forward with support from the Pacific Private Sector Development Initiative (footnote 31), and with the assistance of ADB's Office of Public–Private Partnership through a grant from the Asia Pacific Project Preparation Facility.⁴² To fully implement the National Competition Policy, DOT, ICCCL, and KCH will set up an interdepartmental working group and agree on an implementation road map. KCH will also roll out training to its management on KCH's diversity policy. Under reform area 2, KCH has committed to maintain current SOE performance data on the KCH website and has agreed to include reporting on climate performance as well. There is also agreement between KCH and DOT to work together on a transparent way of financing community service obligations. To further institutionalize transparency and governance, the government will produce and implement a manual of corporate policies and procedures for KCH that will include human resources, procurement, finance, and audit policies. KCH will roll out enhanced procurement processes to more SOEs using the PPL example. Under reform area 3, ANL will adopt a new financial model to support accurate route profitability and enable scenario planning. Further to the decision approving the partial privatization of ANL in 2021, ANL and KCH will undertake a study on actions needed to prepare the airline for this potential transition. KCH will ensure successful completion of the Gazelle Solar Independent Power Producer Project and undertake other PPP

³⁹ Proceeds from two sales totaling K1.19 million were received within the program period. Proceeds from the other sales are expected shortly as buyers are in the process of obtaining financing from banks.

⁴⁰ The SOEs are ANL, PPL, Water PNG Ltd, and Telikom PNG Ltd.

⁴¹ The P3F is included in Appendix 1.

⁴² ADB. [Asia Pacific Project Preparation Facility](#).

projects. Arrears payments to SOEs will continue; DOT will adequately fund a budget line to settle remaining historical arrears of selected SOEs, and KCH and DOT will coordinate to prevent buildup of new arrears. The P3F will continue to promote reforms and foster dialogue between the government and ADB, which will directly support reforms in the P3F through policy dialogue, TA, and close coordination with development partners.

28. **ADB value addition.** The program builds on reforms supported under earlier TA and programs. ADB has a history of involvement in SOE reforms in PNG and TA support for the government-owned SOE reform program.⁴³ ADB has undertaken periodic benchmarking of SOE performance.⁴⁴ For the program, ADB regional TA has supported (i) amendments to the KCH Act; (ii) amendments to the PPP Act, preparation of PPP regulations, and support for the establishment of the PPP Centre; (iii) review of the consumer and competition framework, and drafting of related policy and legal amendments taken forward through the ICCA Act amendments; (iv) design of a policy on the costing of community service obligations; and (v) prefeasibility assessments for PPPs, including for PPL (footnote 31).⁴⁵ The regional TA has also strengthened director selection processes and corporate planning, including the preparation of statements of corporate objectives. ADB's country-specific TA has helped (i) improve human resource and director performance management at SOEs; (ii) revise and implement improved procurement processes at PPL; and (iii) support financial management at SOEs, including targeted TA and staff support to finalize annual accounts (footnote 31). ADB has built strong relationships with SOEs through engagement in water and energy projects.⁴⁶ ADB also provided a loan of \$250 million through its COVID-19 pandemic response option to help finance the government's COVID-19 response and economic stimulus.⁴⁷

29. **Development partner coordination.** ADB has coordinated with key development partners. Regional TA is cofinanced by the governments of Australia and New Zealand (footnote 31). Ongoing and planned partner TA, including from the governments of Australia and New Zealand, were considered in identifying and implementing reforms.⁴⁸ The Government of New Zealand is providing parallel cofinancing of \$1 million equivalent as grants, not administered by ADB. ADB discusses policy issues and macroeconomic projections with the IMF related to Article IV consultations, and also discussed the program with the IMF. The ADB program is reflected in

⁴³ TA in the areas of SOEs, PPPs, and business environment reform has been provided by ADB through country-specific TA and the regional Private Sector Development Initiative, including its previous phases. ADB. [Technical Assistance for Private Sector Development Initiative](#); ADB. [Technical Assistance for Private Sector Development Initiative, Phase II](#); and ADB. [Technical Assistance for Private Sector Development Initiative, Phase III](#).

⁴⁴ ADB. 2012. [Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Papua New Guinea](#). Manila; ADB. 2014. [Finding Balance 2014: Benchmarking the Performance of State-Owned Enterprises in Island Countries](#). Manila; ADB. 2016. [Finding Balance 2016: Benchmarking the Performance of State-Owned Enterprises in Island Countries](#). Manila; and ADB. 2019. [Finding Balance 2019: Benchmarking the Performance of State-Owned Banks in the Pacific](#). Manila.

⁴⁵ Other ADB departments, including the Office of Public–Private Partnership and the Private Sector Operations Department, have engaged with PNG SOEs as required.

⁴⁶ ADB. [Papua New Guinea: Town Electrification Investment Program](#); ADB. [Papua New Guinea: Power Sector Development Project](#); and ADB. [Papua New Guinea: Water Supply Scheme for Tete Settlement](#) (financed by the People's Republic of China Poverty Reduction and Regional Cooperation Fund).

⁴⁷ ADB. [Papua New Guinea: COVID-19 Rapid Response Program](#). In addition, ADB also provided support for COVID-19 response through TA funds (\$1.6 million) to directly procure health supplies, Asia Pacific Disaster Response Fund assistance (\$3 million) to further contribute to the health response, and a policy-based operation focused on public financial management reforms in the health sector (an additional \$50 million added to the originally planned \$100 million). ADB. [Papua New Guinea: Health Services Sector Development Program \(Subprogram 3\)](#); ADB. [Regional: COVID-19 Emergency Response](#); and ADB. [Regional Support to Address the Outbreak of Coronavirus Disease 2019 and Potential Outbreaks of Other Communicable Diseases](#).

⁴⁸ The Government of Australia's TA is supporting capacity building in KCH and telecommunications reforms. The Government of New Zealand and the World Bank are supporting PPL.

the IMF's SMP, which supported transparency, accountability, and governance in SOEs.⁴⁹ The IMF 2022 Article IV report serves as an equivalent of the IMF assessment letter (footnote 16).⁵⁰ The government leads development partner coordination on SOE reform.

30. **Lessons.** The key lesson from the mixed success of ADB's engagement in SOE reform in PNG prior to the program is that political support is crucial.⁵¹ The programmatic approach that gradually increased in complexity and strength helped ensure and build the government's commitment to reform. Legislation, implementation support, and capacity building helped institutionalize the reforms. ADB recognizes that extensive TA, coordinated with development partners and provided in parallel with budget support, can help advance the reform agenda and supplement government capacity. The program recognizes that stronger oversight mechanisms and resolution of board issues can improve SOE performance.⁵² Other lessons include recognizing the benefits of (i) backloading ADB's disbursements across three subprograms and recognizing that implementation of complex reforms may take longer, based on ADB's experience in Fiji;⁵³ (ii) establishing a technical working group to coordinate reforms, including senior and working level staff from the Ministry of State Enterprises, DOT, Department of Finance, the Department of National Planning and Monitoring, the Auditor General's Office, and KCH, based on ADB's experience in the health sector program in PNG;⁵⁴ and (iii) given the varied interests involved in SOEs, ensuring that relevant ministers are kept abreast of progress and difficulties encountered so their support can be used to overcome challenges. To ensure sustainability of reforms, a P3F was developed during the preparation of subprogram 3 to provide guidance on the continued provision of TA and as a basis for ongoing dialogue and engagement.

C. Expected Outcome of the Reforms

31. The program is aligned with the overarching development objective of delivering services across PNG at high quality and affordable prices (footnote 26). The targeted outcome of the reforms is to improve the operational performance of SOEs. This will have the added benefits of improving SOE service delivery and freeing up fiscal resources for priority sectors like health and education.

32. A better policy, legal, and institutional framework for SOEs, supported through the program and subprogram 3 prior policy actions, will strengthen governance, diversity, and accountability, thereby improving the operational performance of the SOE portfolio. Transparent and merit-based selection and clearer performance evaluation processes will contribute to more qualified personnel on SOE boards. Reforms targeting specific SOEs include measures to avoid unsustainable borrowing; reduce contingent liabilities; encourage private investment; and improve the reliability, efficiency, and affordability of public services. In the medium term, the improved financial position and operational performance of SOEs will improve overall resilience and support greater investment in, and attention to, service delivery.⁵⁵

⁴⁹ As part of its strategy of fiscal consolidation, the government entered an SMP with the IMF in December 2021. The program was rated *broadly satisfactory*, emphasizing the government's commitment to maintaining macroeconomic stability. Also see footnote 16.

⁵⁰ International Monetary Fund Assessment Letter (accessible from the list of linked documents in Appendix 2).

⁵¹ Several policy initiatives undertaken by Pacific Private Sector Development Initiative phases II and III stalled because of inadequate political and administrative support, and were subsequently taken forward through this program with stronger government support (footnote 1).

⁵² Independent Evaluation Department. 2018. *Thematic Evaluation Study: State-Owned Enterprise Engagement and Reform*. Manila: ADB.

⁵³ ADB. [Fiji: Sustained Private Sector-Led Growth Reform Program \(Subprogram 1\)](#).

⁵⁴ ADB. [Papua New Guinea: Health Services Sector Development Program, Subprogram 1](#).

⁵⁵ Program Economic Assessment (accessible from the list of linked documents in Appendix 2).

D. Development Financing Needs and Budget Support

33. Development financing needs of the government based on its projected fiscal deficit for 2022 are estimated at \$1.7 billion equivalent. This will be financed through a combination of domestic and external borrowing, including \$250 million from subprogram 3 (Table 2). Cofinanced budget financing of \$1 million equivalent (not administered by ADB) is expected to be provided on a grant basis by the Government of New Zealand.⁵⁶ Public debt is expected to remain sustainable with this loan, conditional on the government implementing its medium-term revenue strategy to boost revenues and undertake fiscal consolidation (footnote 16).

Table 2: Papua New Guinea’s Financing Needs and Sources

Item	2022f
Fiscal balance (% of gross domestic product)	(5.9)
Fiscal balance (\$ million)	(1,700)
Net financing needs (\$ million)	1,700
Domestic net financing (\$ million)	636
External net financing (\$ million)	1,063
of which: ADB policy-based loan (\$ million)	250

() = negative, ADB = Asian Development Bank, f = forecast.

Note: Numbers may not sum precisely because of rounding.

Sources: Asian Development Bank; and Government of Papua New Guinea, Department of Treasury estimates.

34. The government has requested a regular loan of \$250 million from ADB’s ordinary capital resources to help finance the program. The loan will have a 15-year term, including a grace period of 3 years; an interest rate determined in accordance with ADB’s Flexible Loan Product; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 9.25 years, and there is no maturity premium payable to ADB. ADB loan proceeds will support development financing needs, excluding ineligible items.

E. Implementation Arrangements

35. DOT is the executing agency. Along with DOT, the Auditor General’s Office, the Department of Finance, the Department of National Planning and Monitoring, and the Ministry of State Enterprises are the implementing agencies.⁵⁷ A technical working group is coordinating the program reforms (para. 30). The program implementation period is October 2019 to October 2022, and the implementation period for subprogram 3 is October 2021 to October 2022. The proceeds of the policy-based loan will be withdrawn following ADB’s *Loan Disbursement Handbook* (2022, as amended from time to time).

III. DUE DILIGENCE

36. **Safeguards.** Following ADB’s Safeguard Policy Statement (2009), subprogram 3 is classified category C for the environment, involuntary resettlement, and indigenous peoples. The prior policy actions have been assessed and are not expected to result in or lead to involuntary resettlement or negatively affect indigenous peoples or the environment.

⁵⁶ Other sources of external financing are still to be confirmed at this time. The government is in discussions with other development partners, including the Government of Australia.

⁵⁷ The government transferred the responsibility of managing the PPP Centre and carriage of the PPP Act amendment from the Department of National Planning and Monitoring to the Department of Finance in September 2022.

37. **Poverty and social.** SOEs are an important provider of services to low-income households; more financially secure SOEs will have more resources to invest in improved services. The program will also ease pressure on the national budget by (i) reducing the need for government transfers to compensate for inefficient SOE operations, and (ii) decreasing the risk of SOEs defaulting on debt that represents a contingent liability for the government. This will cushion the poor from shocks by ensuring that the government has more resources to maintain critical public services. Where feasible, private sector participation will increase competition under a strengthened oversight regime, with positive impacts on affordability and quality of services.

38. **Gender.** The program is classified *effective gender mainstreaming*. Gender inequality is prevalent in PNG. Women are underrepresented on SOE boards and in management. Fewer women than men are in the workforce, and men are almost twice as likely as women to have wage-paying jobs in the formal sector. Women run small enterprises but often face competitive disadvantages and entry barriers, including limited access to finance and a lack of information on accessing public procurement opportunities. Women disproportionately bear the brunt of poor quality or expensive service delivery because they are primary caregivers, largely responsible for household maintenance and upkeep (including coping with water and energy poverty).

39. The program includes proactive gender actions and targets. Under reform area 1, amendments to the ICCC Act will require the ICCC to collect data on participation of women in public procurement and use this data to produce reports on ways to boost their participation. Reform area 2 supports women's leadership and active involvement in decision-making, with a target of 12% female representation among SOE directors (up from 10% under subprogram 2). This target has been surpassed, and women represent 15% of total SOE directors as of 31 August 2022. In addition to gender activities at the governance level, implementation of PPL's revised procurement processes has commenced, including guidance for women's businesses to better participate in procurement opportunities and collection of data on female ownership during the tendering process that will be considered during evaluation of bids.

40. **Governance.** Promoting governance and strengthening public financial management (PFM) are government priorities (footnote 26). A 2015 public expenditure and financial accountability assessment and a 2019–2020 reassessment identified substantial gaps that undermine the composition of budget outturns, the timeliness of financial reports and audit oversight, and compliance with internal controls. In response, the government is implementing PFM reforms guided by its PFM reform road map.⁵⁸ These reforms are supported by ADB and complementary development partner TA, including from the European Union, the IMF and its Pacific Financial Technical Assistance Centre, the World Bank, and the governments of Australia, Japan, and New Zealand.⁵⁹ Complementary to whole-of-government PFM reforms, the program will contribute to gradually reducing fiduciary risks stemming from SOEs with their large fiscal drain and liability risks. Program reforms will help increase accountability and transparency. The administration has pledged to combat corruption, although much remains to be done.⁶⁰ Major risks and mitigating measures are summarized in Table 3 and described in detail in the risk assessment and risk management plan.⁶¹

⁵⁸ Government of PNG. 2015. *Public Expenditure and Financial Accountability Road Map, 2015–2018*. Port Moresby. The road map is being updated to reflect reform progress and findings from the 2019–2020 Public Expenditure and Financial Accountability assessment and will guide future reforms and development partner support.

⁵⁹ ADB. 2021. [Technical Assistance to Papua New Guinea for Strengthening Fiscal, Debt, and Financial Management](#). Manila.

⁶⁰ In 2021, PNG ranked 124 out of 180 economies in [Transparency International's corruption perception index](#), up 18 places from its rank in 2020 (accessed 10 October 2022).

⁶¹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 3: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
External shocks (for example, disasters caused by natural hazards, or deteriorating global inflation and supply chain disruptions) aggravate economic and fiscal pressures.	ADB will monitor economic developments and respond in a timely manner in coordination with other partners as needed.
Low institutional capacity delays reform implementation and impedes policy formulation.	Extensive TA from ADB and development partners is available to bridge gaps through short- and medium-term capacity supplementation. The programmatic approach supports prioritization and sequencing of reforms to avoid overburdening the administration and decision makers.
Weak PFM systems constrain reform progress.	The program will strengthen financial reporting by SOEs. ADB TA and development partner support will continue to support broader PFM reforms in parallel.
Weak governance, including corruption and collusion, impedes reforms.	The program supports merit-based selection to SOE boards to improve governance and strengthen oversight. Implementation of the National Procurement Act 2018 will increase procurement transparency. Wider governance risks will be addressed through the risk assessment and management plan under ADB's country partnership strategy for Papua New Guinea, 2021–2025, and related TA. ADB's Anti-Corruption Initiative for Asia Pacific (in collaboration with the Organisation for Economic Co-operation and Development) supports regional knowledge sharing and capacity building to reduce corruption risks. ^a

ADB = Asian Development Bank, COVID-19 = coronavirus disease, PFM = public financial management, SOE = state-owned enterprise, TA = technical assistance.

^a Organisation for Economic Co-operation and Development. [Anti-Corruption Initiative for Asia Pacific](#).

Source: Asian Development Bank.

41. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, including DOT, the Department of Finance, the Department of National Planning and Monitoring, the Ministry of State Enterprises, and the Auditor General's Office.

IV. ASSURANCES AND CONDITIONS

42. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement, as described in detail in the draft loan agreement.

V. RECOMMENDATION

43. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$250,000,000 to Papua New Guinea for subprogram 3 of the State-Owned Enterprises Reform Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's Flexible Loan Product; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa
President

8 November 2022

POLICY DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective				
Delivery of services across PNG at high quality and affordable prices (Medium Term Development Plan III 2018–2022) ^a				
Outcome Operational performance of SOEs improved		Risks and Critical Assumptions R: Prolonged COVID-19 pandemic and/or other external shocks lead to economic collapse. R: Weak PFM systems and governance constrain reform progress. R: Weak governance, including corruption and collusion, impedes reforms. R: Low capacity delays reform implementation and impedes policy formulation. A: COVID-19 vaccine rollout continues and travel into and around PNG is opened, enabling businesses to operate without restrictions.		
Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
Reform Area 1: Legislative and policy framework strengthened				
1.1 NEC has approved the PNG SOE Ownership and Reform Policy, laying out key principles of SOE ownership, governance, and performance, including the need to increase women's representation on SOE boards in line with the government's commitment to the economic empowerment of women.			<p>KCH will roll out diversity initiatives, including training to its management on KCH's diversity policy.</p> <p>Department of Finance will capacitate the PPP Centre in implementing its mandate through the recruitment and training of key staff, development of the administrative structures, preparation of suitable protocols and policies, and ensuring adequate financing is budgeted for the center.</p> <p>Government will support the passage of amendments to the ICCC Act (2002) through Parliament.</p> <p>DOT, ICCC, and KCH will set up an inter-departmental working group to oversee implementation of the National Competition policy.</p>	<p>a. Consolidated net losses of SOEs reduced by at least 10% (2018 baseline: losses of K335 million; As of December 2021: profit of K82 million) Source: KCH Annual Reports.</p> <p>b. 100% of SOEs in GBT report on the application of competitive neutrality principles.^b (2018 baseline: NA) Source: Treasury Report.</p>
1.2 NEC has approved the draft KCH (Amendment) Bill to amend the KCH Act, for submission to Parliament, including (a) reducing political	2.1 Parliament approved the KCH (Amendment) Bill 2020, to amend the KCH Act, which (a) reduces political influence on commercial			

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
<p>influence on commercial decision-making;</p> <p>(b) focusing KCH's role on monitoring SOE performance;</p> <p>(c) reinforcing timely preparation and public release of corporate plans and audited annual financial statements;</p> <p>(d) establishing transparent skills-based processes for SOE director selection and appointment;</p> <p>(e) introducing a provision to include at least one woman who meets the requirements on the short list for director appointments; and</p> <p>(f) requiring CSOs to be identified and costed.</p>	<p>decision-making;</p> <p>(b) focuses KCH's role on monitoring SOE performance;</p> <p>(c) reinforces timely preparation and public release of corporate plans and audited annual financial accounts;</p> <p>(d) establishes transparent skills-based processes for SOE director selection and appointment;</p> <p>(e) introduces a provision to include at least one woman who meets the requirements on the short list for director appointments; and</p> <p>(f) requires CSOs to be identified and costed.</p>			
<p>1.3 NEC has approved the National Competition Policy</p>	<p>2.2 The Ministry of State Enterprises and DOT negotiated General</p>	<p>3.1 NEC approved the submission of amendments to the ICCA Act (2002) for Parliamentary</p>		

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
<p>which supports competitive neutrality of SOEs, and removal of barriers to the participation of women’s businesses and small and medium enterprises in public procurement through appropriate structuring of tenders and advertisements.</p>	<p>Competitive Neutrality Principles with KCH, in line with international guidelines and global goals for sustainable development, including gender equality.</p>	<p>approval on 29 September 2022 to implement the following elements of the National Competition Policy:^c</p> <ul style="list-style-type: none"> (a) receipt and reporting on the Competitive Neutrality Principles by SOEs;^d (b) receipt and investigation of matters raised by the National Working Group; (c) the provision of advice by ICCC to the Treasurer on competition matters; and (d) the monitoring of the participation and success of women’s businesses and SMEs in public procurement processes through the collection of sex-disaggregated data and reporting by ICCC on ways to effectively enhance the participation of women and SMEs in public procurement.^e 		
<p>1.4 NEC has directed the Office of the Legislative Counsel to draft the PPP regulations for the implementation of the PPP Act 2014.</p> <p>1.5 The Department of Finance has approved establishment of a</p>	<p>2.3 NEC approved proposed amendments to the PPP Act, for submission to Parliament, which will allow its full implementation (including resolution of any conflicts with relevant recently enacted legislation,</p>	<p>3.2 In order to implement the PPP Act:</p> <ul style="list-style-type: none"> (a) Parliament approved amendments to the PPP Act (2014) on 4 March 2022 to allow its full implementation (including resolution of any conflicts with relevant recently enacted legislation, the establishment of the PPP 		

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
<p>working group comprising the Department of Finance, DOT, Department of National Planning and Monitoring, and State Solicitor's Office, to support implementation of the PPP Act.</p>	<p>the establishment of the PPP Centre and the process for recruitment of the CEO) and endorsed them for Parliament approval.</p>	<p>Centre and the process for recruitment of the CEO);</p> <p>(b) NEC endorsed all necessary regulations to ensure full compliance with the PPP Act on 8 June 2022 and advised the Head of State to issue the PPP regulations on 8 June 2022;^f and</p> <p>(c) the PPP Steering Committee approved the budget allocation starting with 2022–2024 to fund operations of the PPP Centre,^g and the PPP Centre guidelines to ensure compliance with roles and responsibilities with immediate effect on 22 September 2022.</p>		
<p>Reform Area 2: Governance and transparency enhanced</p>				
<p>1.6 In order to select qualified directors and promote commercial decision-making, KCH Board has</p> <p>(a) Approved Appointment and Assessment of Directors – Process and Guidelines for the transparent and merit-based selection of new</p>	<p>2.4 KCH Board</p> <p>(a) implemented Appointment and Assessment of Directors - Process and Guidelines for all new director appointments, with women representing 10% of total SOE directors; and</p> <p>(b) operationalized a database of</p>	<p>3.3 KCH Board implemented the Appointment and Assessment of Directors - Process and Guidelines for all new director appointments, and ensured that women represent 15% of total SOE directors as of 31 August 2022.^h</p>	<p>KCH will regularly prepare its annual report containing current data on SOE performance and will further expand this to include reporting on climate performance; the annual report will be made available on the KCH website to enhance transparency.</p> <p>KCH will roll out enhanced procurement processes to more SOEs using the PPL example.</p>	<p>c. SOEs have published online all 2018–2022 audited financial statements. (2019 baseline: NA [no audited financial statements were published]; As of December 2021: audited financial statements for 8 of 9 SOEs for 2019; and audited financial statements for 5 of 9 SOEs for 2020 were published)</p>

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
<p>SOE directors, requiring that the director appointment process systematically short-list qualified female applicants for consideration for each SOE director vacancy; and</p> <p>(b) Recommended the appointment of 5 directors (including 2 women) to PPL, Post PNG Limited, and KCH by NEC, following the approved Appointment and Assessment of Directors – Process and Guidelines.</p>	<p>qualified women for potential director positions to achieve the KCH Act target of having at least one woman on the board of each SOE.</p>		<p>KCH will work with Department of Treasury on further quantifying CSO.</p> <p>To further institutionalize transparency and governance, KCH will develop and begin implementing a corporate policies and procedures manual for KCH which will include human resources, procurement, finance and audit policies.</p> <p>AGO and KCH will address adverse audit opinions within SOEs in the GBT, including those that relate to debts and how they are presented on the balance sheet.</p>	<p>Source: KCH website.</p>
	<p>2.5 KCH Board approved new processes and guidelines for assessment of SOE directors' performance against key performance indicators, including gender and diversity, to strengthen performance</p>	<p>3.4 KCH implemented the process for assessment of SOE directors' performance approved in subprogram 2, including assessment against key performance indicator(s) on gender and diversity, to strengthen performance management and gender equality by conducting performance assessments for</p>		

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
	management and gender equality.	39 directors of SOEs by 31 August 2022. ⁱ		
<p>1.7 In order to reduce the backlog of audited annual financial statements for KCH and SOEs in the GBT, in line with the draft KCH (Amendment) Bill to be approved by Parliament, KCH Board has adopted a phased approach, and begun implementation, under which</p> <p>(a) General Business Trust (with KCH as Trustee), Motor Vehicles Insurance Limited, National Development Bank, PNG Ports Corporation Limited, and Post PNG Limited have prepared their audited financial reports for 2018;</p> <p>(b) Motor Vehicles Insurance Limited, National Development Bank, and Post PNG Limited</p>	<p>2.6 KCH Board, in line with the KCH (Amendment) Act, implemented the phased approach to reduce the backlog of audited financial statements for KCH and SOEs in the GBT, under which</p> <p>(a) 9 SOEs prepared their audited financial reports for 2018;</p> <p>(b) 8 SOEs shall have prepared their audited financial reports for 2019;</p> <p>(c) 4 SOEs prepared their audited financial reports for 2020;</p> <p>(d) KCH published completed audited financial reports for SOEs under it for 2019 and 2020 on their website; and</p> <p>(e) The Auditor General's Office appointed auditors for all SOEs for 2020</p>	<p>3.5 KCH Board, in line with the KCH (Amendment) Act, implemented the phased approach to reduce the backlog of audited financial statements for KCH and SOEs in the GBT, under which</p> <p>(a) All SOEs prepared their audited financial reports for 2019 and 2020;^j</p> <p>(b) At least 6 SOEs prepared their audited financial reports for 2021;^k</p> <p>(c) KCH published completed audited financial reports for all SOEs for 2020 and 2021 on their website; and</p> <p>(d) The Auditor General's Office appointed auditors for all SOEs for preparing statements for 2022.</p>		

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
<p>have prepared their audited financial reports for 2019; and</p> <p>(c) The Auditor General's Office has appointed external auditors for Bemobile (PNG) Limited, Eda Ranu Limited, Kumul Agriculture Limited, Motor Vehicles Insurance Limited, PNG Dataco Limited, PNG Ports Corporation Limited, Post PNG Limited, Telikom PNG Limited, and Water PNG Limited, to conduct external audit of financial reports for 2019.</p>	<p>and 5 SOEs for 2021.</p>			
<p>1.8 PPL Board has approved a Procurement Policy (Financial Delegations), clarifying financial delegation authorities and limits, and outlining processes to commit PPL funds.</p>	<p>2.7 PPL Board approved a revised procurement framework to enhance clarity and efficiency, and provide guidance on supporting women's businesses to better participate in procurement processes.</p>	<p>3.6 PPL implemented revised procurement process to ensure compliance with the new procurement process approved under subprogram 2 starting 19 May 2022, which includes collecting information on whether an enterprise is owned by women and how many female staff are</p>		

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
		employed during the tendering process that will be considered during evaluation, as a means of increasing their participation. ^l		
1.9 NEC has approved the 2020 Annual Operating Plans of ANL Limited, KCH, Motor Vehicles Insurance Limited, PNG Ports Corporation Limited, PPL, Post PNG Limited, and Water PNG Limited.				
1.10 In order to strengthen corporate planning in line with the draft KCH (Amendment) Bill to be approved by Parliament, KCH Board has approved Guidelines for MSOE Corporate Plans and Statements of Corporate Intent clarifying the steps in the annual governance cycle and template for the corporate plans and statements of corporate intent (including requirements for reporting on gender diversity of staff in key categories), to	2.8 KCH Board, in line with the KCH (Amendment) Act, implemented the Guidelines for SOE Corporate Plans and Statements of Corporate Intent, with the approval of 2021 corporate plans and statements of corporate intent of 7 (of 9) SOEs, including reporting on gender diversity.	3.7 KCH Board, in line with the KCH (Amendment) Act, implemented the Guidelines for SOE Corporate Plans and Statements of Corporate Intent, with the approval of 2022 corporate plans and statements of corporate intent of all nine SOEs in the GBT, including reporting on gender diversity. ^m		

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
replace Annual Operating Plans.				
	2.9 Post PNG piloted the costing of CSOs, and reported this in their 2021 Corporate Plan, to implement the CSO provisions under the KCH Act.	3.8 9 SOEs in the GBT costed their CSOs, and reported this in their 2022 statements of corporate intent; and DOT funded the CSO costs of Post PNG through the 2022 budget, both to implement the CSO provisions under the KCH Act. ⁿ		
1.11 In order to promote transparency in line with the draft KCH (Amendment) Bill to be approved by Parliament, KCH Board has (a) Approved a resolution to disclose KCH Annual Reviews on the KCH website to improve public release of information; and (b) Implemented the resolution by disclosing the 2018 Annual Review (including summary unaudited financial reports, key projects, and investment outlook for all	2.10 KCH Board enhanced the content of the 2019 and 2020 Annual Reviews by including summaries of key projects, plans for increasing diversity, and the investment outlook for all SOEs in the GBT, and disclosed both Annual Reviews on its website to increase transparency of its operations.	3.9 KCH Board further enhanced the content of the 2021 Annual Review to additionally include financial accounts, reporting on gender diversity, and summary statements of corporate intent of SOEs in the GBT, and disclosed the 2021 Annual Review on its website.		

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
SOEs in the GBT) on the KCH website.				
Reform Area 3: Financial sustainability of specific state-owned enterprises improved				
1.12 KCH Board has approved ANL's 2020 Annual Operating Plan (Revised for Impact of COVID-19) which incorporates the ANL Turnaround Plan to improve financial performance and paydown overdue creditor balances.	2.11 ANL commenced implementation of the ANL Recovery Plan including the reduction and consolidation of creditors, through securing credits, payment plans, and negotiating swaps.	3.10 ANL further implemented the ANL Recovery Plan by (a) closing 6 (of 6) overseas sales office to reduce costs; ^o and (b) completing the business case and commencing implementation of the re-fleeting aircraft selection process to achieve fleet optimization and rationalization. ^p	ANL will adopt a fit for purpose financial model as a tool that improves analysis of route profitability and optimization, to allow ANL to make more informed decisions around scheduling, fleet and cost management, overhead allocation, and overall commercial management. ANL and KCH will undertake an assessment of actions needed to prepare ANL for possible partial privatization.	d. Gross profit for ANL will rise to at least 7% of total revenue. ^q (2019 baseline: –6.6%) Source: ANL Audited Financial Statements e. Number of Water PNG water and sewerage connections increases by at least 10%. ^q (2019 baseline: 60,240; As of 2020: 61,610) Source: KCH Annual Report
1.13 NEC has approved a decision to divest ANL's non-core assets including (a) ANL Residence at 7 Mile, Port Moresby; (b) Surplus land at 6/7 Mile, Port Moresby; and (c) Surplus aircraft (Falcon Jet).	2.12 ANL commenced implementation of the NEC decision to divest ANL's non-core assets over 2019-2022 by completing the sale of nine properties to generate cashflow for working capital needs.	3.11 ANL implemented the NEC decision to divest ANL's non-core assets with the ANL Board approving sale of K3.51 million from the remaining property assets (having received offers of at least 70% of valuation) to generate cashflow for operating costs. ^f	KCH and PPL will ensure successful completion of the Gazelle IPP project. KCH will undertake additional PPPs, based on the PPP Act approved under the program. DOT will adequately fund budget line to settle remaining historical arrears of selected SOEs, and KCH and DOT will work together to prevent build-up of new arrears.	f. Number of active Telikom subscribers increases by at least 50%. ^q (2019 baseline: 261,449; As of 2021: 358,598) Source: Telikom Ltd. corporate plan g. DOT is current on its payments to 6 SOEs, based on payment of undisputed invoices within 60 days. (2019 baseline: NA; As of 2021: 1) Source: SOE Audited Financial Statements.
1.14 NEC has approved draft legislation for submission to Parliament to amend the National Water	2.13 Parliament approved the National Water Supply and Sanitation (Amendment) Bill 2019 to facilitate the merger	3.12 The integration of Eda Ranu's operations into Water PNG Limited was operationalized through the completion of the Merger Workplan effective		

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
Supply and Sanitation Act 2016 and repeal the National Capital District Water Supply and Sewerages Act 1996 to facilitate merger of Eda Ranu and Water PNG.	of Eda Ranu and Water PNG.	December 2021, including the filing of all regulatory and legal documents, transfer of assets and liabilities, and a phased approach to business systems integration.		
1.15 NEC has approved a decision for Post PNG to create a third-party logistics company with a reputable strategic partner.				
1.16 NEC has approved a decision to redevelop the Jacksons International Airport under a PPP model.				
	2.14 PNG Power Board has approved the release of a call for expressions of interest on Gazelle Solar IPP, through a competitive tender process, based on a PPP pre-feasibility assessment.	3.13 PNG Power went to market for bids on 4 August 2022 as part of the competitive tender process for the Gazelle Solar IPP to showcase its ability to transparently implement PPP projects. ⁵		
	2.15 Water PNG Board approved the Port Moresby Water Supply System Master Plan, including social and gender analysis, and initiated a feasibility study to structure a			

Prior Actions: Subprogram 1 Completed October 2019–November 2020	Prior Actions: Subprogram 2 Completed December 2020–September 2021	Prior Actions: Subprogram 3 Completed October 2021– October 2022	Post-program Partnership Framework (November 2022–December 2023)	Outcome Indicators (By October 2023)
	PPP for a new Mt. Eriama treatment plant that will explore the inclusion of land-owner benefits and meet the forecast needs of Port Moresby through to 2030. [†]			
		3.14 NEC approved a decision on 16 December 2021 to undertake a partial privatization of Telekom PNG Ltd. with the aim of introducing international experience and high-quality expertise to the telecom sector. ^u		
1.17 DOT has (a) Approved settlement of arrears owed to ANL by the State to improve its cash flow position; and (b) Settled K21 million in arrears owed to ANL by the State.	2.16 In order to avoid build-up of government arrears (a) NEC approved a decision to settle government arrears to PNG Power; and (b) DOT commenced implementation of the decision by being current on its payments to PNG Power, based on payment of undisputed invoices within 60 days.	3.15 DOT further implemented NEC's decision on avoiding build-up of government arrears to SOEs in the GBT through payment of undisputed invoices to at least 4 (of 9) SOEs, to support financial sustainability of SOEs. ^v		

Budget SupportSubprogram 1:

ADB: \$100 million loan

Subprogram 2:

ADB: \$150 million loan

Government of New Zealand: \$1 million equivalent grant not administered by ADB

Subprogram 3:

ADB: \$250 million loan

Government of New Zealand: \$1 million equivalent grant not administered by ADB

A = assumption, ADB = Asian Development Bank, AGO = Auditor General's Office, ANL = Air Niugini Limited, CEO = chief executive officer, COVID-19 = coronavirus disease, CSO = community service obligation, DOT = Department of Treasury, GBT = General Business Trust, HR = human resources, ICCC = Independent Consumer and Competition Commission, IPP = independent power producer, K = kina, KCH = Kumul Consolidated Holdings, NA = not available, NEC = National Executive Council, PFM = public financial management, PNG = Papua New Guinea, PPL = PNG Power Limited, PPP = public-private partnership, R = risk, SMEs = small and medium-sized enterprises, SOE = state-owned enterprise.

^a Government of Papua New Guinea. 2018. *Medium Term Development Plan III 2018–2022*. Port Moresby.

^b The outcome indicator on the country performance assessment score for transparency, accountability, and corruption in the public sector improvement has been dropped, since it is significantly broader in scope and coverage than just the SOEs under KCH. It has been replaced with the indicator on reporting on competitive neutrality principles, that is directly linked to the program and will be an outcome from the implementation of the amended ICCC Act.

^c The draft ICCC (Amendment) Bill 2022 was cleared by the State Solicitor and a Certificate of Necessity was issued on 3 May 2022.

^d The four General Competitive Neutrality Principles require SOEs to (i) achieve a commercial rate of return on assets; (ii) be tax neutral, i.e., pay all taxes and duties; (iii) be regulation neutral, i.e., comply with all laws and regulations; and (iv) be debt neutral, i.e., borrow at commercial rates or include charges to account for implicit and explicit government guarantees.

^e Section 126B of the ICCC Amendment Bill provides that the Commission may, on request by the Minister or on its own initiative, investigate and report to the Minister on (i) means of enhancing the participation of women and small enterprises in public procurement; and (ii) the collection of data regarding the participation of women and small enterprises in public procurement.

^f Implementation of the requirements in the PPP regulations have commenced as evidenced by the establishment of the PPP Steering Committee, and operationalization of the PPP Centre under prior action 3.2(c).

^g The budget allocations will be sustained on a rolling basis, with initial approval to cover 2022–2024.

^h This represents greater progress than the 12% target for subprogram 3 envisaged under subprogram 2, with 10 of 66 SOE directors (15%) being women as of 31 August 2022.

ⁱ Performance assessments of the other 27 directors were not due within the program period because (i) they had not been in position long enough for their performance to be assessed, or (ii) a majority of directors on the SOE boards they were part of were new, and the board had not met enough times for performance assessments to be conducted. These directors' performances will be reviewed in the next round of assessments, expected in 2023.

^j This represents greater progress than the 8 envisaged for subprogram 3 under subprogram 2 policy actions, for preparation of 2020 audited financial reports.

^k The six SOEs are Telikom PNG Ltd., Water PNG Ltd, Motor Vehicles Insurance Limited, NDB, PNG Ports Corporation.Ltd, and PNG Dataco Ltd. This represents a steady progression in targets over the program. Remaining 3 SOEs are also expected to complete their statements by end October 2022.

^l The procurement policy embeds advancement of gender outcomes as a formal measure of value-for-money within evaluation processes. The tendering template requires information on whether women own 55% or more of the enterprise; and require sex-disaggregated data on the supplier workforce as a mandatory reporting measure. This information will be used during evaluation of tenders. Further, the updated Supplier Code of Conduct embeds non-discrimination as a mandatory expectation of supplier behavior.

- ^m All 9 SOEs have obtained the approval of 2022 corporate plans and statements of corporate intent, including reporting on gender diversity. This represents greater progress than the 8 envisaged for subprogram 3 under subprogram 2 policy actions.
- ⁿ All 9 SOEs have costed their CSOs in the Corporate Plans. This represents greater progress than the 5 envisaged for subprogram 3 under subprogram 2 policy actions.
- ^o Against the subprogram 2 policy action requirement of only one for subprogram 3, ANL closed all its six overseas offices in Sydney, Brisbane, Cairns, Honiara, Manila, and Nadi.
- ^p ANL will replace two B767 widebody aircraft that is expected to lead to an improvement in profits of around \$21.6 million equivalent. Replacement aircraft have been identified and negotiations are ongoing.
- ^q Outcome indicators have been added based on enhanced corporate reporting supported by the program. Systematic data on these indicators were not available earlier. The added indicators are reflected in the key performance indicators of the SOEs, under their corporate plans. Targets are based on projections by KCH, including effects of reform actions under the program.
- ^r ANL Board approved sale bids received for properties worth K3.51 million, more than the minimum of K2.00 million envisaged for subprogram 3 under the subprogram 2 policy actions. Two sales worth K1.19 million were completed in the program period. Proceeds from other sales are expected shortly as buyers are in the process of obtaining financing from banks.
- ^s The Request for Tender was sent out to shortlisted bidders on 4 August 2022 and closed on 12 August 2022.
- ^t Progression of the Mt. Eriama Water Treatment Project has slowed due to both commercial factors combined with government funding constraints as public finances recover from the pandemic. However, it remains on the agenda for implementation.
- ^u The potential private partners have been identified and commercial negotiations are ongoing.
- ^v The SOEs are ANL, PPL, Water PNG Ltd, and Telkom PNG Ltd. The government's review of the major SOEs found these four entities with arrears outstanding that were significant to their operations.

Contribution to Strategy 2030 Operational Priorities: Operational priority indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=53424-003-3>

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management
3. Contribution to Strategy 2030 Operational Priorities
4. Development Coordination
5. International Monetary Fund Assessment Letter¹
6. Summary Poverty Reduction and Social Strategy
7. Program Economic Assessment
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Approved Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to Papua New Guinea for the State-Owned Enterprises Reform Program
11. Approved Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to Papua New Guinea for the State-Owned Enterprises Reform Program

¹ The International Monetary Fund (IMF) confirmed on 23 September 2022 that the attached [Papua New Guinea: 2022 Article IV and Review of the Staff Monitored Program—Press Release; Staff Report; and Statement by the Executive Director for Papua New Guinea](#) may serve as the International Monetary Fund Assessment Letter.



INDEPENDENT STATE OF PAPUA NEW GUINEA

MINISTER FOR TREASURY

DEVELOPMENT POLICY LETTER

Mr. Masatsugu Asakawa
President
Asian Development Bank
Philippines

Dear President Asakawa:

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

State-owned enterprises in PNG continue to face significant operational challenges, which have been intensified by the effects of the COVID-19 pandemic. In this respect, we value the strong engagement with the Asian Development Bank on SOE reforms.

With the help of the first two subprograms of the State-Owned Enterprises Reform Program, we have implemented critical reforms to strengthen the oversight, operations, and financial position of state-owned enterprises (SOEs) in Papua New Guinea (PNG) and have made progress on developing enabling frameworks for competition and public-private partnerships (PPPs). Still, SOEs continue to face challenges leading to sub-optimal operational performance that negatively affect the access to and quality and cost of services for the people and businesses of PNG. Completed and operational competition and PPP frameworks will improve the quality and lower the cost of key services.

As highlighted in the inaugural address by the Prime Minister, Honorable James Marape, on the occasion of his election as the Prime Minister of Papua New Guinea, in the 11th National Parliament on 9 August 2022, we must sustain SOE reforms. This includes improving key utilities such as power, water, and telecommunications. Efficient SOEs are critical to support development and growth in the long-term. To this end, the Marape-Rosso Government is continuing the implementation of the comprehensive SOE reform blueprint that we launched in 2019. Under this program, we are seeking to improve corporate governance, increase profitability, and restructure our liabilities to improve the quality of services delivered by our SOEs, while simultaneously seeking ways to reduce costs and offer more accessible pricing. Our reforms are tailored to the specific challenges faced by each of our SOEs.

The economy of PNG is rebounding from the effects of the COVID-19 pandemic that saw our economy shrink and Government's fiscal deficit reach K7.3 billion (8.9% of GDP) in 2020. In 2021, we achieved economic growth of 14.3% while fiscal consolidation efforts helped lower the fiscal deficit to K6.26 billion (6.7% of GDP). I would like to note that the deficit in 2021 was 9% lower than the target in our successfully completed IMF Staff Monitored Program. We anticipate further improvements for 2022, despite global inflationary pressures increasingly being felt in our country.

Over the medium-term, ongoing tax reforms, spending restraint, and public financial management reforms to spend better are expected to drive down fiscal deficits while maintaining funding for basic service delivery. This will help us stabilize and send public debt levels on a downward trajectory within the course of this government. SOEs play a critical role in these efforts by supporting growth and development outcomes while minimizing the strain on public finances.

To support the continuation of reform efforts to improve the operational performance of our SOEs and establish enabling frameworks for competition and PPPs as well as help address the government's financing needs, we seek financial assistance from the Asian Development Bank's (ADB) ordinary capital resources in the form of budget support. As explicitly acknowledged by our Prime Minister in his inaugural parliamentary address, I would like to thank ADB for the support to date, comprising subprogram 1 of \$100 million in 2020, subprogram 2 of \$150 million in 2021 and complementary technical assistance. I now seek support of \$250 million under subprogram 3 in 2022.

Since the completion of reforms supported under subprogram 2, we have continued implementation of reforms to strengthen the legislative and policy frameworks for SOEs, competition and PPPs. We have finalized the drafting of amendments to the Independent Consumer and Competition Commission Act, 2002 and our National Executive Council has approved these for consideration by the National Parliament. The amendments support the implementation of the National Competition Policy, including of the Competitive Neutrality Principles it sets out. Our government will support its passage through Parliament. In our efforts to attract private finance as well as private management and operational expertise through PPP projects, our Parliament approved amendments to the PPP Act, 2014 that resolve uncertainty and conflicts with other legislation and establish the PPP Centre. The National Executive Council endorsed regulations to guide implementation of the amended act and the PPP Steering Group approved the medium-term budget and guidelines for the PPP Centre. Going forward, we will continue the rollout of merit-based recruitment processes and diversity initiatives led by KCH and operationalize the established PPP framework by recruiting and training key staff for the center, developing the administrative structures, preparing suitable protocols and policies, and ensuring adequate financing for the center.

Similarly, our efforts to enhance governance and transparency have continued from subprogram 2. We sustained the implementation of improved appointment and assessment processes for, and increased the representation of women among, SOE directors. To strengthen planning of SOEs, we have implemented the Guidelines for SOE Corporate Plans and Statements of Corporate Intent and approved the 2022 corporate plans and statements of corporate intent of all SOEs under KCH. All SOEs have costed their community service obligations, which we are gradually evaluating through the national budget, as fiscal space allows. PNG Power Limited commenced implementation of the revised procurement process, which will be rolled out to other SOEs going forward. Lastly, we have further reduced the backlog of audited financial statements for KCH and SOEs in the General Business Trust, ensuring that all of them prepared their audited financial reports for 2019 and 2020. Six SOEs have fully cleared the backlog by completing their audited financial reports for 2021, and the Auditor General's Office has appointed auditors for all SOEs for 2022. Similarly, KCH completed audited financial reports for 2020 and published this, together with a further expanded Annual Review for 2021, on its website. We are committed to

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ensuring the clearance of remaining financial reporting and audit backlogs, maintaining audited financial statements for KCH and all SOEs in the General Business Trust, and timely appointing auditors for all SOEs beyond the program's completion. Linked to the program reforms, we are planning to further strengthen KCH's performance going forward, including by developing corporate policies and procedures for human resource management, procurement, finance, and audit, and by expanding KCH's reporting to include related information.

We have also implemented targeted reforms to improve the financial sustainability of specific state-owned enterprises. Air Niugini Limited further implemented its recovery plan by tendering a financial model for route profitability and optimization analysis, closing all its overseas sales office, implementation of a re-fleeting aircraft selection process, and divestment of non-core property assets. The Marape-Rosso government, through KCH, plan to develop similar reform plans covering the restructuring of assets for other SOEs. With the aim of improving water and sanitation services, we completed the integration of Eda Ranu's operations into Water PNG Limited through the filing of all regulatory and legal documents, transfer of assets and liabilities, and a phased approach to business systems integration. PNG Power Limited has requested bids under a competitive tender process for the Gazelle Solar independent power producer project. A partial privatization arrangement was initiated for Telikom aiming to provide the SOE with international operational and management expertise. Both efforts will be advanced and further opportunities explored going forward, including with ADB technical assistance. Lastly, we have cleared further government arrears to SOEs and are now current on our undisputed invoices to four SOEs. Further verification and clearance of arrears is planned for the near future.

We continue to be particularly committed to addressing women's issues in PNG. In line with our Medium-term Development Plan III that recognizes the need to give women equal opportunities and empower them economically and socially, we have integrated gender considerations into the competition framework; increased the participation of women on SOE boards; and strengthened the collection, analysis, planning, and reporting of data on gender diversity across SOEs and for KCH. These efforts will be continued beyond the program's completion.

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

Yours Sincerely

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



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