INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 14.8 MILLION
(US$20 MILLION EQUIVALENT)

TO THE

INDEPENDENT STATE OF PAPUA NEW GUINEA

FOR A

TOURISM SECTOR DEVELOPMENT PROJECT

May 18, 2017

Social, Urban, Rural and Resilience Global Practice
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective February 28, 2017)

Currency Unit = Kina
PGK0.31 = US$1
US$1.35 = SDR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ARAP  Abbreviated Resettlement Action Plan
CDD  Community Driven Development
CG  Community Grants
CPS  Country Partnership Strategy
DA  Designated Account
EIRR  Economic Internal Rate of Return
EOCC  Economic Opportunity Cost of Capital
ESIA  Environmental and Social Impact Assessment
EMP  Environmental Management Plan
ENB  East New Britain
ESMP  Environmental and Social Management Plan
FM  Financial Management
GDP  Gross Domestic Product
GRS  Grievance Redress Service
GRM  Grievance Redress Mechanism
IFC  International Finance Corporation
IPPF  Investment Subproject Agreement
ISA  Investment Subproject Agreement
HIES  Household Income and Expenditure Survey
IDA  International Development Association
MB  Milne Bay
MSMEs  Micro, small and medium enterprises
MTAC  Ministry of Tourism, Arts and Culture
M&E  Monitoring and Evaluation
OTAC  Offices of Arts, Culture and Tourism
POM  Project Operations Manual
PAD  Project Appraisal Document
PCR  Physical Cultural Resources
PFMA  Public Financial Management Act
PMC  Project Management Company
PNG  Papua New Guinea
PIE  Project Implementing Entity
PSCCG  Project Small Grant Committee
SAR  Subproject Appraisal Report
Regional Vice President: Victoria Kwakwa, EAPVP
Country Director: Michel Kerf, EACNF
Senior Global Practice Director: Ede Jorge Iijasz-Vasquez, GSURR
Practice Manager: Abhas K. Jha, GSU08
Task Team Leaders: Ahmed A. R. Eiweida, GSU08, Andres F. Garcia, GTC02
PAPUA NEW GUINEA
TOURISM SECTOR DEVELOPMENT PROJECT
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**Basic Information**

<table>
<thead>
<tr>
<th>Project ID</th>
<th>EA Category</th>
<th>Team Leaders</th>
</tr>
</thead>
<tbody>
<tr>
<td>P158807</td>
<td>B - Partial Assessment</td>
<td>Ahmed A. R. Eiweida, Andres Garcia</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Lending Instrument</th>
<th>Investment Project Financing</th>
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</thead>
<tbody>
<tr>
<td>Fragile and/or Capacity Constraints</td>
<td>Financial Intermediaries</td>
</tr>
<tr>
<td>Series of Projects</td>
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</table>

<table>
<thead>
<tr>
<th>Project Implementation Start Date</th>
<th>Project Implementation End Date</th>
</tr>
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<tbody>
<tr>
<td>09-Jun-2017</td>
<td>31-Jan-2022</td>
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<table>
<thead>
<tr>
<th>Expected Effectiveness Date</th>
<th>Expected Closing Date</th>
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<tr>
<td>01-Sep-2017</td>
<td>31-Aug-2022</td>
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Joint IFC

No

<table>
<thead>
<tr>
<th>Practice Manager</th>
<th>Senior Global Practice Director</th>
<th>Country Director</th>
<th>Regional Vice President</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abhas K. Jha</td>
<td>Ede Jorge Iijasz-Vasquez</td>
<td>Michel Kerf</td>
<td>Victoria Kwakwa</td>
</tr>
</tbody>
</table>

Borrower: Independent State of Papua New Guinea

Responsible Agency: Ministry of Tourism, Arts and Culture

<table>
<thead>
<tr>
<th>Contact: Honorable Tobias Kulang</th>
<th>Title: Minister of Tourism, Arts and Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone No.: +6753200211</td>
<td>Email: <a href="mailto:kulangtobias8@gmail.com">kulangtobias8@gmail.com</a></td>
</tr>
</tbody>
</table>

Responsible Agency: PNG Tourism Promotion Authority

<table>
<thead>
<tr>
<th>Contact: Alcinda Trawen</th>
<th>Title: Director, Policy and Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone No.: +6753200211</td>
<td>Email: <a href="mailto:alcinda.trawen@papuanewguinea.travel">alcinda.trawen@papuanewguinea.travel</a></td>
</tr>
</tbody>
</table>

**Project Financing Data (in USD Million)**

<table>
<thead>
<tr>
<th>Loan</th>
<th>IDA Grant</th>
<th>Guarantee</th>
<th>Credit</th>
<th>Grant</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[X]</td>
<td>[ ]</td>
<td>[ ]</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Total Project Cost: 20.00</th>
<th>Total Bank Financing: 20.00</th>
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</thead>
<tbody>
<tr>
<td>Financing Gap: 0.00</td>
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</table>

**Financing Source**

<table>
<thead>
<tr>
<th>Amount</th>
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<tbody>
<tr>
<td>RECIENT 0.00</td>
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<tr>
<td>International Development Association (IDA) 20.00</td>
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</table>
### Expected Disbursements (in USD Million)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
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</thead>
<tbody>
<tr>
<td>Annual</td>
<td>0.10</td>
<td>1.70</td>
<td>4.00</td>
<td>6.00</td>
<td>6.00</td>
<td>2.20</td>
</tr>
<tr>
<td>Cumulative</td>
<td>0.10</td>
<td>1.80</td>
<td>5.80</td>
<td>11.80</td>
<td>17.80</td>
<td>20.00</td>
</tr>
</tbody>
</table>

### Institutional Data

**Practice Area (Lead)**

Social, Urban, Rural and Resilience Global Practice

**Contributing Practice Areas**

Trade & Competitiveness, Transport & ICT, Water

**Cross Cutting Topics**

- [ ] Climate Change
- [ ] Fragile, Conflict & Violence
- [X] Gender
- [X] Jobs
- [ ] Public Private Partnership

**Sectors / Climate Change**

Sector (Maximum 5 and total % must equal 100)

<table>
<thead>
<tr>
<th>Major Sector</th>
<th>Sector</th>
<th>%</th>
<th>Adaptation Co-benefits %</th>
<th>Mitigation Co-benefits %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry and trade</td>
<td>General industry and trade sector</td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>Rural and Inter-Urban Roads and Highways</td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Administration, Law, and Justice</td>
<td>General public administration sector</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water, sanitation and flood protection</td>
<td>General water, sanitation and flood protection sector</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

**Themes**

Theme (Maximum 5 and total % must equal 100)

<table>
<thead>
<tr>
<th>Major theme</th>
<th>Theme</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and private sector development</td>
<td>Infrastructure services for private sector development</td>
<td>25</td>
</tr>
<tr>
<td>Financial and private sector development</td>
<td>Other Private Sector Development</td>
<td>15</td>
</tr>
</tbody>
</table>
### Urban development
City-wide Infrastructure and Service Delivery | 20

### Financial and private sector development
Micro, Small and Medium Enterprise support | 20

### Financial and private sector development
Regulation and competition policy | 20

**Total** | **100**

#### Proposed Development Objective(s)
The project development objective is to improve tourism services in targeted destinations.

#### Components

<table>
<thead>
<tr>
<th>Component Name</th>
<th>Cost (USD Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional and Policy Frameworks</td>
<td>4.00</td>
</tr>
<tr>
<td>Infrastructure and Community/Product Development</td>
<td>13.00</td>
</tr>
<tr>
<td>Project Management</td>
<td>3.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20.00</strong></td>
</tr>
</tbody>
</table>

#### Systematic Operations Risk- Rating Tool (SORT)

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Political and Governance</td>
<td>Substantial</td>
</tr>
<tr>
<td>2. Macroeconomic</td>
<td>Substantial</td>
</tr>
<tr>
<td>3. Sector Strategies and Policies</td>
<td>Moderate</td>
</tr>
<tr>
<td>4. Technical Design of Project or Program</td>
<td>Substantial</td>
</tr>
<tr>
<td>5. Institutional Capacity for Implementation and Sustainability</td>
<td>Substantial</td>
</tr>
<tr>
<td>6. Fiduciary</td>
<td>Substantial</td>
</tr>
<tr>
<td>7. Environment and Social</td>
<td>Substantial</td>
</tr>
<tr>
<td>8. Stakeholders</td>
<td>Substantial</td>
</tr>
<tr>
<td>9. Other (Security)</td>
<td>Moderate</td>
</tr>
<tr>
<td>10. Other (Climate and Disaster)</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>OVERALL</strong></td>
<td><strong>Substantial</strong></td>
</tr>
</tbody>
</table>

#### Compliance

<table>
<thead>
<tr>
<th>Policy</th>
<th>Yes [ ]</th>
<th>No [X]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the project depart from the CAS in content or in other significant respects?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the project require any waivers of Bank policies?</td>
<td>Yes [ ]</td>
<td>No [X]</td>
</tr>
<tr>
<td>Have these been approved by Bank management?</td>
<td>Yes [ ]</td>
<td>No [ ]</td>
</tr>
<tr>
<td>Is approval for any policy waiver sought from the Board?</td>
<td>Yes [ ]</td>
<td>No [X]</td>
</tr>
<tr>
<td>Does the project meet the Regional criteria for readiness for implementation?</td>
<td>Yes [X]</td>
<td>No [ ]</td>
</tr>
</tbody>
</table>
### Safeguard Policies Triggered by the Project

<table>
<thead>
<tr>
<th>Policy</th>
<th>Yes</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
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<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
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</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td></td>
<td>No</td>
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<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td>Yes</td>
<td></td>
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<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>Yes</td>
<td></td>
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<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td>Yes</td>
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<tr>
<td>Safety of Dams OP/BP 4.37</td>
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<td>No</td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td></td>
<td>No</td>
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</table>

### Select Non-standard Legal Covenants

<table>
<thead>
<tr>
<th>Name</th>
<th>Recurrent</th>
<th>Due Date</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing of project implementing entity</td>
<td></td>
<td>May 31, 2017</td>
<td></td>
</tr>
<tr>
<td><strong>Description of Covenant</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than December 15, 2017, [the Project Implementing Entity shall] recruit individual consultants with qualifications, experience and terms of reference satisfactory to the Association to assist the Project Implementing Entity in undertaking its Project coordination, fiduciary and safeguards support responsibilities (Project Agreement, Schedule, Section I., A.1.a).</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name</th>
<th>Recurrent</th>
<th>Due Date</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project management company</td>
<td></td>
<td>No later than 120 days after the Effective Date</td>
<td></td>
</tr>
<tr>
<td><strong>Description of Covenant</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than eighteen (18) months after the after the Effective Date, [the Project Implementing Entity shall] recruit a Project Management Company in accordance with the provision of Section III of Schedule 2 of the Financing Agreement and under the terms of reference approved by the Association to support the overall Project implementation and coordination; fiduciary and safeguards compliance; construction supervision; and monitoring and evaluation activities, the Project Implementing Entity (Project Agreement, Schedule, Section I., A.1.b).</td>
<td></td>
<td></td>
<td></td>
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</table>

### Select Non-standard Conditions

<table>
<thead>
<tr>
<th>Source of Fund</th>
<th>Name</th>
<th>Type</th>
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<tbody>
<tr>
<td>IDA</td>
<td>Subsidiary Agreement</td>
<td>Effectiveness</td>
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</table>

### Description of Condition
The Additional Condition of Effectiveness consists of the following: the Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity. (Financing Agreement, Article V, Section 5.01).

**Source of Fund**
- IDA: Community Grants
  - Type: Disbursement

**Description of Condition**
Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made … for any payments under Category (2) unless the Community Grants Manual referred to in Section I.D.1(c) of Schedule to the Project Agreement has been duly adopted by the Project Implementing Entity, in form and substance satisfactory to the Association. (Financing Agreement, Schedule 2, Section IV, B.1.b.).

### Team Composition

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Title</th>
<th>Specialization</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ahmed A. R. Eiweida</td>
<td>Team Leader (ADM Responsible)</td>
<td>Lead Urban Specialist</td>
<td>Urban, Cultural Heritage and Tourism Development</td>
<td>GSU08</td>
</tr>
<tr>
<td>Andres F. Garcia</td>
<td>Team Leader</td>
<td>Senior Economist</td>
<td>Tourism and Private Sector Development</td>
<td>GTC02</td>
</tr>
<tr>
<td>Hannah R. Messerli</td>
<td>Team Member</td>
<td>Senior Private Sector Specialist</td>
<td>Tourism policy. Team Leader until PCN.</td>
<td>GTCCS</td>
</tr>
<tr>
<td>Eric L. Blackburn</td>
<td>Procurement Specialist (ADM Responsible)</td>
<td>Procurement Specialist</td>
<td>Procurement</td>
<td>GGO08</td>
</tr>
<tr>
<td>Ross James Butler</td>
<td>Safeguards Specialist (ADM Responsible)</td>
<td>Senior Social Development Specialist</td>
<td>Social development and safeguards</td>
<td>GSU02</td>
</tr>
<tr>
<td>Caroline Mary Sage</td>
<td>Team Member</td>
<td>Senior Social Development Specialist</td>
<td>Community development and gender</td>
<td>GSU02</td>
</tr>
<tr>
<td>Gayatri Acharya</td>
<td>Team Adviser</td>
<td>Lead Economist</td>
<td>Gender and Social Inclusion</td>
<td>GSU02</td>
</tr>
<tr>
<td>Imogen Halstead</td>
<td>Team Adviser</td>
<td>Senior Economist</td>
<td>Poverty and Equity</td>
<td>GPVO2</td>
</tr>
<tr>
<td>Duangrat Laohapakakul</td>
<td>Legal</td>
<td>Senior Counsel</td>
<td>Legal</td>
<td>LEGES</td>
</tr>
<tr>
<td>Evarist Baimu</td>
<td>Legal</td>
<td>Senior Counsel</td>
<td>Legal</td>
<td>LEGES</td>
</tr>
<tr>
<td>Nicholas John Valentine</td>
<td>Environmental Specialist Consultant</td>
<td>Environment safeguards</td>
<td></td>
<td>GENDR</td>
</tr>
<tr>
<td>David Bruce Whitehead</td>
<td>Team Member</td>
<td>Financial Management Specialist</td>
<td>Financial Management</td>
<td>GGO20</td>
</tr>
<tr>
<td>Name</td>
<td>Title</td>
<td>Office Phone</td>
<td>Location</td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------------------</td>
<td>--------------</td>
<td>-----------------------</td>
<td></td>
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<tr>
<td>Chau-Ching Shen</td>
<td>Team Member</td>
<td>Senior Finance Office</td>
<td>Disbursement</td>
<td>WAFALN</td>
</tr>
<tr>
<td>Allan Tobalbal Oliver</td>
<td>Team Member</td>
<td>Agricultural Spec.</td>
<td>Operational support</td>
<td>GFA02</td>
</tr>
<tr>
<td>Dodi Doiwa</td>
<td>Team Member</td>
<td>Operations Analyst</td>
<td>Operational support</td>
<td>EACGF</td>
</tr>
<tr>
<td>Zijing Niu</td>
<td>Team Member</td>
<td>Senior Program Assistant</td>
<td>Program assistance</td>
<td>GSU08</td>
</tr>
<tr>
<td>Summerville Kave</td>
<td>Team Member</td>
<td>Team Assistant</td>
<td>Team Assistant</td>
<td>EACGF</td>
</tr>
<tr>
<td>John Gerard Perrottet</td>
<td>Peer Reviewer</td>
<td>Senior Industry Specialist</td>
<td>Peer Reviewer</td>
<td>GTCCS</td>
</tr>
<tr>
<td>Dina Nicholas</td>
<td>Peer Reviewer</td>
<td>Senior Operations Officer</td>
<td>Peer Reviewer</td>
<td>CASSB</td>
</tr>
<tr>
<td>Soraya Goga</td>
<td>Peer Reviewer</td>
<td>Lead Urban Specialist</td>
<td>Peer Reviewer</td>
<td>GSU09</td>
</tr>
</tbody>
</table>

**Extended Team**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Office Phone</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jennifer Bartlett</td>
<td>Tourism Consultant</td>
<td></td>
<td>Manly, Australia</td>
</tr>
<tr>
<td>Tinatin Lebanidze</td>
<td>Urban Development</td>
<td></td>
<td>Tbilisi, Georgia</td>
</tr>
<tr>
<td>Andre Oosterman</td>
<td>Economist</td>
<td></td>
<td>HMC, Vietnam</td>
</tr>
<tr>
<td>Vera Jiazhen Zhou</td>
<td>Short-term Consultant</td>
<td></td>
<td>Washington DC, USA</td>
</tr>
</tbody>
</table>

**Locations**

<table>
<thead>
<tr>
<th>Country</th>
<th>First Administrative Division</th>
<th>Location</th>
<th>Planned</th>
<th>Actual</th>
<th>Comments</th>
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<tbody>
<tr>
<td>PNG</td>
<td>Mile Bay Province</td>
<td>Alotau City</td>
<td>Alotau City</td>
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<td></td>
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<tr>
<td></td>
<td>East New Britain Province</td>
<td>Kokopo City</td>
<td>Kokopo City</td>
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<td>Rabaul City</td>
<td>Rabaul City</td>
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</table>

**Consultants**

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Tourism Strategies, Marketing &amp; Promotion, Workforce Development, Urban Planning, Project Management, Municipal Infrastructure Design and Construction Supervision</td>
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</table>
I. STRATEGIC CONTEXT

A. Country Context

1. The Papua New Guinea (PNG) economy has seen sustained positive economic performance over the past decade, driven by its minerals and energy extraction sector, but this has not translated into inclusive development. Accounting for the majority of export earnings, the minerals and energy extraction sector has benefited from the global mineral resources boom. However, for the majority of the population who earn their livelihood outside the mining sector, little seems to have changed as opportunities have not expanded. Consequently, there has been no major decline in poverty levels between 1996 and 2009/10, with almost 40 percent of the population living below the national poverty line. Similarly, the level of consumer inequality, measured by a Gini coefficient of 0.4, remained unchanged during the same time period.

2. Recent volatility in the extractive industries market has contributed to the Government’s articulated desire to greater economic diversification and focus on new growth areas. PNG’s exploited natural wealth extends beyond minerals, to forestry, agriculture and fisheries, which represent the three sectors that employ most of PNG’s working population. The country also has substantial natural value in its diverse and unique terrestrial and marine locations and habitats throughout its mainland and more than 600 smaller islands. PNG also has unique cultural assets, distinctive local traditions, and a myriad of tangible and intangible cultural heritage. Such a wealth of natural and cultural heritage has contributed to its profiling in the international tourism market as a compelling place to visit. PNG is a growing tourism destination among the Pacific island countries, and has experienced a growth in international tourism arrivals of 6 percent between 1996 and 2010. The potential for the sustainable tourism sector to generate more jobs and foreign exchange earnings in the future has been recognized by the Government of PNG.

B. Sectoral and Institutional Context

3. The Government of PNG has identified sustainable tourism as a priority sector that can lead to more inclusive growth. PNG’s Medium Term Development Plan 2 (2016-2017)\(^1\) highlights the importance of the tourism sector, featuring as one of its objectives to “Increase the number of international tourists and business travelers for cultural, environmental and economic benefits of Papua New Guineans”. Similarly, the PNG Tourism Master Plan 2007-2017\(^2\) set a specific goal of “doubling the number of tourists on holiday in PNG every five years”. The Government of PNG recognizes that the development of a sustainable tourism sector can result in a more inclusive growth that can benefit the bottom 40 percent, and be gender inclusive. The sector is labor intensive, generating a wide range of jobs, especially for women and youth, together with economic opportunities for local communities, including those in the primary and artisan sectors, which are the most likely to live in extreme poverty. Furthermore, when properly managed, tourism can enable the preservation of natural and cultural heritage, which are some of PNG’s

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\(^1\) The rolling Medium Term Development Plans (MTDPs) provide investment plans aligned to the ‘PNG Development Strategic Plan 2010-2030’ and the ‘Vision 2050’.
\(^2\) The PNG Master Plan 2007-2017, Part 4.10
most valuable assets, and critical to future resilience and social cohesion within communities dealing with the rapidly changing socio-economic environment that development brings.

4. **PNG has been seeing a steady growth of visitor numbers since 2002.** The period 2002-2015 witnessed an average international arrivals growth rate of 13 percent. In absolute terms, visitor arrivals grew from 53,670 in 2002 to 198,685 in 2015, representing slightly more than 1.5 million visitors during this period. Since the PNG Tourism Master Plan was launched in 2007, annual average growth from arrivals from international holiday visitors alone (excluding cruise day visitors) was 12 percent per annum, reflecting almost double growth (95 per cent) in the eight years to 2015. Visitor arrivals by cruise ship are reported to have seen even stronger growth due the increasing size and number of cruises, however, actual passenger or disembarkation numbers and growth are not available. In 2015, holiday arrivals were 27 percent of all visitor arrivals, compared to 38 percent on business and 28 percent arriving for employment. The majority of holiday arrivals were from Australia (24,000), followed by the United States (6,800) and United Kingdom (3,600).

5. **PNG has a strong foundation of largely untapped tourism resources but faces sector development constraints, so focusing on locations with the most market appeal and least constraints, can maximize tourism growth opportunities and minimize investment risks.** PNG’s geographic diversity easily supports a wide range of niche tourism experiences, including culture, world war heritage, trekking, bird watching, diving, surfing, fishing, sailing and river cruising all of which attract a growing number of international travelers. However, safety and security concerns limit the ability of some provinces to increase international tourist arrivals. Safety and other macro constraints, such as the cost of air travel, indicate that niche market tourism and the cruise market will continue to be the two main growth areas in the sector. Targeted interventions, along with strengthening the institutional and policy frameworks, can provide a demonstration effect and a platform for future support to other provinces.

6. **Among the nation’s twenty provinces, East New Britain and Milne Bay have been identified by the government as the highest-potential provinces for tourism development.** East New Britain and Milne Bay are two of the safest provinces, and together account for 11 percent of PNG’s population. Their respective provincial Strategic Development Plans identify tourism as a priority sector, reflecting the commitment from each Provincial Administration. Tourism offerings in Milne Bay include: Alotau town; war heritage sites, bird watching, caving, fishing, snorkeling and diving; islands rich in culture; colonial/missionary history; and the annual Kundu Canoe Festival. East New Britain province offers extensive natural and cultural assets including: Rabaul’s smoking volcano and historic town area (which has given rise to the nickname of the “Pompeii of the Pacific”); WWI and II battle sites and tunnels and wreck diving sites; picturesque islands and marine nature-based activities such as fishing, snorkeling, diving, dolphin watching; treks and the annual Mask Festival. Both provinces offer a wide range of locally specific cultural heritage experiences, and in each case the sector could be more effectively developed to service the tourism industry and increase livelihood opportunities for local populations.

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4 Ibid.
7. Despite their potential, tourism development in East New Britain and Milne Bay is constrained by inadequate institution setups, subpar infrastructure and a low supply of competitive tourism products. The development of the tourism sector is constrained by a range of issues, including: (i) weak provincial and tourism institutions, which lead to the preparation of unrealistic provincial tourism strategies, limited knowledge about market demand, poor marketing, and insufficient workforce development; (ii) inadequate infrastructure, which limits access to tourism destinations (i.e., dilapidated roads and jetties), the provision of services to tourism suppliers (i.e., limited water for cruise ships), and affects the tourism experience (i.e., undeveloped shorefront in Alotau); and (iii) a limited supply and/or poor quality of tourism products and services (e.g. hotels, tours, tourism information offices), together with unclear plans to involve and increase the participation of local communities, despite their significant untapped potential.

8. Further development of the tourism sector requires strengthening of the institutions to enable development at national and provincial levels, combined with investment in priority infrastructure for tourism, and tourism related products and experiences in priority locations. The World Bank Group’s global sustainable tourism experience, and local insights from extensive stakeholder consultations in PNG indicate this requires the integrated planning and execution of tourism development initiatives across national, provincial and local authorities, for which a commitment has been given by the relevant authorities in PNG. Stakeholders also support efforts to enhance the tourism hubs of Rabaul/Kokopo and Alotau, and connected tourism ‘spokes’ of compelling tourism sites/experiences that will meet – and generate more - market demand. The World Bank Group support can aid the Government to further enhance women’s participation in different parts of the sector, community participation and benefit sharing in supported initiatives, as well as the conservation and promotion of the unique cultural and natural heritage of PNG. This calls for public and private investment in infrastructure, and the development of tourism products in these hubs and spokes by community-led enterprises, private micro, small or medium enterprises (MSMEs), or large investors. Supporting such interventions has the potential to reduce poverty and improve shared prosperity and living standards of the bottom 40 percent. This approach is aligned with the World Bank Group’s goals of ending extreme poverty and promoting shared prosperity in a sustainable way, and PNG’s goals for tourism to be developed for the benefit of all Papua New Guineans.

C. Higher Level Objectives to which the Project Contributes

9. The Papua New Guinea government requested IDA assistance to support the development of the tourism sector in order to contribute to economic diversification and inclusive growth. The updated PNG Medium Term Development Plan (MTDP2) 2016-2017, as noted above, and the revised Strategic Plan 2010-2030 includes a focus on tourism. The MTDP2 defines an objective for cultural and eco-tourism, which is to “Increase the number of international tourists and business travelers for cultural, environmental and economic benefits of Papua New Guineans”. The proposed Project is aligned to these objectives and to the current World Bank Group’s Country Partnership Strategy (CPS) (2013-2018) (Report 71440-PG), which has recently been expanded to target emerging development needs in water, tourism, and power. The proposed Project will contribute to Pillar I: Increased and more gender-equitable access to inclusive physical and financial infrastructure, through the development of resilient and diversified physical infrastructure targeted at increasing the benefits accruing to local communities from the tourism sector. Similarly, the Project contributes to Pillar II: gender-equitable improvements in lives and
livelihoods, through direct technical and financial support to local communities and businesses, especially to women, to increase their capacity to tap into the tourism sector.

11. The proposed Project responds to the World Bank Group’s Strategic Goals to end extreme poverty and boost shared prosperity in a sustainable manner. Based on the 2008/09 PNG Household Income and Expenditure Survey (HIES), an estimated 39 percent of the PNG’s population is living in extreme poverty, on less than US$1.90 per day. The incidence of poverty, according to the national basic needs poverty line, is similar at 40 percent. Available data also show that poverty is higher for people living in households where the household heads run their own informal business (for example, in semi-subsistence agriculture, making or selling goods and handicrafts for sale), than those earning wage and salary incomes (44 percent versus 28 percent). Additionally, evidence from the 2008/09 HIES shows a strong correlation between educational attainment and poverty. More than one half of the population in households where the head has no education lives below the basic needs poverty line. This incidence falls to one-in-three for households where the head has some level of secondary schooling. The design of the Project aims at ensuring that the Bank’s support does not only benefit the tourism industry to create jobs, but also result in direct real benefits for local communities and micro, small and medium enterprise (MSMEs). Skills development and improvements of small-scale tourism infrastructure will be targeted to ensure they benefit the local and poor communities, with a particular focus on the benefits to women. Income raised from cultural/natural assets, e.g., tax, admission fees, will mobilize resources for further development of local communities and preservation of culture.

12. Closing the gaps between males and females in terms of human endowments, more and better jobs, ownership and control of assets, voice and agency are pillars of the World Bank Group Gender Strategy 2016-2023. Skills development training and community-based tourism-related initiatives will be specifically targeted at women and Papua New Guineans with lower levels of formal education. Women’s access to formal employment and credit is also much more limited, with most women working in the informal sector. Historically, young women’s participation in community programs has been weak as a result of the co-optation of community processes by men, token representation of women without necessary training, cultural barriers to effective engagement on issues, and increasing tension between customary versus common law for the protection of women’s rights.

13. The conservation of cultural heritage is a central tenet of the World Bank’s safeguards policies. Support to arts and cultural industries provides a range of inclusive economic opportunities for local artisans. Cultural industries are not only labor intensive, but they allow communities to continue to practice traditions that maintain cultural integrity and community resilience. Improving the quality and access to market chains for various cultural industries will not only generate inclusive economic opportunities, but also contribute to the preservation of cultural heritage and social capital. They also have an important communicative role in promoting PNG as a culturally unique destination to visit.

14. **Rationale for Bank involvement.** The proposed activities envisaged under the Project have links to the twin goals through the enhanced economic opportunities they aim to bring to the local economy in the two target provinces. Increased tourism activity can help the poor and less well-off communities through a) direct effects of tourism (income and earnings from tourism sector, as
well as improved infrastructure), and b) secondary effects (from participation in non-tourism sectors such as in the construction work, farmers supplying agricultural produce to hotels, etc., or from entrepreneurial activities tapping into markets for tourist products, such as cultural artifacts and crafts). Through broader support to arts and cultural industries development, the project will also support a range of inclusive economic opportunities for local artisans; since cultural industries are labor intensive and enable communities to practice a range of invaluable traditions that maintain cultural integrity. The Project will monitor these direct and secondary effects in order to assess impacts on the tourism sector and on local communities, particularly women and youth.

15. The World Bank Group has significant experience in tourism and local economic development. The Bank has invested/committed about US$9.5 billion in over 600 tourism sector projects, in addition to technical assistance across the regions, including countries such as Georgia, Armenia, Cabo Verde, the Caribbean, Ethiopia, Indonesia, Sri Lanka, among others. Moreover, as part of the Pacific Possible flagship report, the Bank has assessed the potential of the tourism sector in eleven Pacific Island States, including Papua New Guinea.

16. The World Bank also has significant experience in supporting community driven development, including in PNG and other parts of the Pacific. Further, the Bank has a wealth of experience in supporting community based entrepreneurship, including in the arts and crafts sectors. As these sectors tend to have a large representation of women, they have direct effects on women’s economic empowerment.

17. The International Finance Corporation (IFC) recently completed and disseminated an Assessment of the Economic Impact of Cruise Tourism in Papua New Guinea & Solomon Islands, covering the provinces of East New Britain and Milne Bay. The proposed Project intends to leverage IFC’s relationships with the cruise lines, inbound operators, and their initiatives to develop more inclusive packages. Furthermore, IFC will be supporting PNG in (i) implementing the next international investment survey, which will provide much needed metrics; and (ii) carrying out a detailed demand analysis for the two provinces to properly understand the current market trends, determine demand-led opportunities for product development, and identify realistic market projections that can inform the Provincial Tourism Strategies.

18. Overall, the World Bank Group is seen by the Government, development partners and other stakeholders as a source of global knowledge on using tourism and cultural heritage for provincial and local economic development. The World Bank Group can potentially play a catalytic role in leveraging additional funds from donor agencies, trust funds, the private sector and the state budget. Through effective coordination between the Bank and active development partners in PNG, it is expected that a range of initiatives can be brought together for a greater effect.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objective (PDO)

19. The project development objective is to improve tourism services in targeted destinations.
B. Project Beneficiaries

20. The Project activities will directly benefit local communities, private sector enterprises and tourists in Milne Bay and East New Britain provinces, while efforts to strengthen the provincial and national tourism institutional framework and support the growing arts and cultural industries sector, are expected to generate benefits beyond these provinces at the national level. Residents, enterprises and tourists will benefit from improved tourism services. Similarly, MSMEs and local communities will be able to increase their income through the provision of improved tourism products and services, and the volume of private sector investment in the two provinces will increase. Support to local cultural industries will promote economic opportunities for local artisans in markets within and beyond the localized tourism sector. The national, provincial and local governments will benefit from increased overall tourism spending, job creation, improved institutional capacity of selected agencies, tax revenues and improved capacity to operate and maintain assets. Finally, the preservation of the unique natural and cultural heritage in each location has public good benefits at local, national and international levels. Benefits will be monitored on a continuous basis under the Project.

21. The Project aims to facilitate the development of tourism hubs (main towns) and spokes (tourist attractions around the hubs, including cultural and natural heritage sites) in East New Britain and Milne Bay provinces. The Project will strengthen the institutions that are the backbone of the sector at the national and provincial level. The Project will also improve the attractiveness of Alotau, Kokopo, and Rabaul as tourism hubs, together with the identification and improvement of priority tourism sites, products and experiences in surrounding sites. In doing so, the respective local tourism sectors will be better able to provide economic opportunities for the bottom forty percent, in addition to establishing longer term employment and business generation paths, and ensuring the preservation of natural and cultural assets.

C. PDO Level Results Indicators

22. The implementation of Project activities will be monitored through the following PDO level indicators:

- Increased number of project beneficiaries (gender disaggregated, 50% women target).
- Adoption and start of execution of the national tourism strategy.
- Adoption and start of execution of provincial tourism development strategies.
- Increased number of cultural and natural heritage sites with improved infrastructure services based on sustainable site management plans.

III. PROJECT DESCRIPTION

23. The Project will leverage opportunities for tourism development in the high-potential provinces of East New Britain and Milne Bay, and target key constraints currently impeding sustainable growth of the sector in these locations. The Project introduces an integrated approach that meets the need for: (i) stronger and more coordinated institutional and policy frameworks for tourism development across national, provincial and local levels; and (ii) improved/rehabilitated small-scale infrastructure at most attractive tourism sites, products and experiences in the destination’s tourism hubs and connected spokes (e.g., cultural and natural heritage sites around
each hub). Consequently, the improved institutional and policy environment will be more conducive to designing and implementing realistic tourism development strategies at national and provincial level. The provincial tourism strategies will be aligned with the current tourism product offering, which does not require massive investments during the next five years, but rather improvement and rehabilitation of existing tourism attractions. This will be achieved by supporting complementary small-scale infrastructure and product-support investments that can lead to a rise in tourist visits. The consequent rise in tourism spending will then increase the tourism income captured by Project beneficiaries, especially women. This will, in turn, fuel inclusive local economic growth.

24. The Project is designed in a modular nature that places emphasis in the beginning of Project implementation on updating the tourism development strategies at the national and two provinces’ levels. The provincial tourism strategies will recommend priorities for policy and institutional strengthening, and recommend the small-scale tourism infrastructure improvements/rehabilitation (e.g., signage, lighting, road rehabilitation) that respond to the current market demand. Subsequent phases of Project implementation will: (a) implement destination management efforts; (b) implement prioritized tourism infrastructure subprojects; (c) support local community groups to effectively participate in and benefit from the growth of tourism activities in the two provinces; and (d) monitor and evaluate performance of activities under all components.

A. Project Components

25. **Component 1: Institutional and Policy Frameworks (US$4.00 million):** This component will seek to raise the standard of government entities integral to establishing and growing an effective tourism sector. Institutional strengthening and integrated planning at the national level, the provincial level (in East New Britain and Milne Bay), and the local level (in Kokopo, Rabaul and Alotau), will enable entities to carry out key priorities such as: improved destination planning and management; marketing and promotion; skilled workforce development and capacity building; product development; sustainable site management of tourism assets; and performance monitoring and evaluation activities. Support will ensure that all planning, design, implementation and monitoring activities are done in an inclusive and gender-sensitive manner.

**Subcomponent 1.1. Strengthening the national and provincial tourism development framework (US$2.80 million).** This subcomponent will support the Ministry of Tourism, Arts and Culture (MTAC) and Provincial Administrations and tourism stakeholders in East New Britain and Milne Bay to improve the national and provincial environments for tourism planning and development. In doing so, the subcomponent will initially support the preparation of Papua New Guinea’s 2018-2022 national tourism strategy. Similarly, the project will support the preparation of provincial tourism strategies for East New Britain and Milne Bay, which will be informed by a detailed demand assessment to be implemented by IFC. These five-year provincial tourism strategies will focus on improving the current tourism offering through small scale developments with high yield potential and low environmental and social impacts. Subsequently this subcomponent will finance priority TA activities identified as part of the strategies, including: guidance for the establishment of effective and sustainable provincial tourism/destination management offices; the implementation of a targeted marketing strategy for each province; the delivery of workforce development and capacity building priorities at national and provincial level;
facilitation of business support services to tourism-related MSMEs; and overall monitoring and evaluation activities. Lastly, this subcomponent will assist MTAC in the prioritization of other provinces that can benefit from the implementation of potential subsequent investments.

**Subcomponent 1.2. Strengthening hub, cultural and community development frameworks (US$1.20 million).** This subcomponent will support the underpinnings required to develop integrated tourism destinations. In doing so, this subcomponent would support the: (i) preparation of a vision for the city of Alotau; (ii) preparation of site management plans for selected tourist and cultural heritage sites; (iii) the provision of cultural heritage advisory services; (iv) the mapping of tangible and intangible cultural heritage in each province; and (iv) the preparation of a Strategic Environmental, Social and Cultural Heritage Assessment (SESCHA), aligned with the vision laid out in the provincial tourism strategies. This subcomponent would strengthen the capacity of the provincial institutions to support stakeholder engagement through public-private dialogue and increased awareness.

26. **Component 2: Infrastructure and Community/Product Development (US$13.00 million).** This component will support the development of integrated tourism destinations in Milne Bay and East New Britain, as identified in the provincial tourism strategies. The implementation of the vision laid out in the tourism strategies will require small-scale/site-specific improvements or rehabilitations that do not affect areas broader than the sites, and direct support to community-led enterprises. The small-scale improvements will benefit the tourism hubs of Rabaul and Kokopo (East New Britain) and Alotau (Milne Bay), which are the main entrances to these provinces for tourists, by air (Tokua/Rabaul and Gurney airports) and sea (cruise ships and super yachts). Moreover, the project will also support the improvement of products in ‘spokes’ (attractions around the hubs), that are already accessible and where communities are willing to participate, by improving existing products and/or experiences (or clusters of such), based on niche themes (e.g., arts, culture, nature, WWII history) and/or geographic locations. This component will also provide targeted support for the development of community-led enterprises, through a grants and advisory program for communities that wish to supply products for tourists based around their cultural or natural heritage. This approach will provide more compelling reasons for visitors to spend more time and money, thereby helping to share the prosperity generated by tourism growth.

**Subcomponent 2.1. Upgrading tourism infrastructure and heritage sites in urban and rural centers (US$10.00 million).** This subcomponent will support small-scale infrastructure rehabilitation to enhance key tourism assets. It will improve the overall quality of each hub destination in Rabaul, Kokopo and Alotau, and selected tourism spokes. Support would be aligned with the provincial tourism strategies. Support would include, for example, upgrading of parks, the development of provincial arts and cultural centers, museums, historical sites/walkways, markets and natural areas as determined by public and private sector prioritization. Upgrading activities would include improved signage, sitting areas, walkways, street lighting, water supply and sanitation facilities, small-sized waste collection and access roads.

**Subcomponent 2.2. Supporting partnerships for inclusive tourism destinations (US$3.00 million).** This subcomponent aims at improving the economic livelihood of
selected communities which can create or expand a tourism product. It supports start-up or expansion of community-led enterprises that contribute to improved livelihood of the bottom forty percent through sustainable and inclusive tourism development.

The subcomponent draws on the experience of a range of different Community Driven Development (CDD) projects, small grants, micro-finance and micro-entrepreneurship programs in PNG and other parts of the globe. The resulting design is a hybrid approach that encompasses CDD principles, the principles of sustainability and cultural heritage protection, and the entrepreneurship principles of competitiveness, market development and performance based disbursement. Activities supported under this sub-component will also be informed by the resource audit being conducted under the Provincial Tourism Strategies, and the complementary mapping of tangible and intangible cultural and natural heritage in each province, supported under Component 1.2. Both activities will enable more targeted outreach and support to communities, which have already demonstrated some capacity to work collectively to develop innovative tourism and cultural or natural heritage products. At the same time, a more general community outreach campaign will be undertaken to ensure that all eligible groups are adequately informed about the opportunities provided under the project.

Specifically, the subcomponent will provide Community Grants (CG) in support of a range of local initiatives selected on various principles such as sustainability, the promotion of cultural or natural heritage, and a well-founded business case. Particular attention and support will be given to activities initiated by women and youth; at least 50 percent of community grants will be given to women led initiatives. CDD principles will be used to solicit demand from local communities and engage them through participatory tools to identify local priorities. Activities to be supported must meet a set of criteria that promote economic sustainability and the sustainability of cultural or natural heritage in the local context, and communities will be required to submit proposal through a competitive process, with criteria that are clearly articulated and adhered to by a Project Small Grant Committee (PSCG). The PSCG will be made up of representatives from TPA, the Provincial Government and the private sector.

To facilitate the submission of quality proposals from communities and to guide their market relevance, a package of advisory support services will be provided by a non-government service provider entity, such as an NGO or private firm, selected on a competitive basis. The package of support will include community outreach and education, community mobilization, business proposal development, costings, market assessments and links to market opportunities, implementation support, and monitoring and evaluation. The service provider (SP) is expected to work closely with the relevant provincial agencies, including the Provincial Tourism Office/Destination Management Office, and collaborate with the local and national Museums, Galleries or cultural institutes where appropriate. The SP will also be responsible to provide monitoring and progress information to TPA.

27. **Component 3: Project Management (US$3.00 million):** This component will support the Project implementation, including procurement, financial management, safeguards compliance, preparation of feasibility studies and details design and construction supervision. In
doing so, this component will support the establishment of a project implementing entity in TPA, headed by a project manager, together with two provincial coordinators. As this will be the first World Bank project to be implemented by TPA in multiple locations that do not have TPA presence, a project management company will be hired to support implementation, safeguard compliance and timely disbursement. The component will also finance the operating cost of the Project implementing and coordinating entities at the national and provincial levels.

B. Project Financing

28. This is an IDA credit.

Project Cost and Financing

29. The table below shows Project cost and financing.

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C. Lessons Learned and Reflected in the Project Design

30. **Tourism has evolved into a diverse and sophisticated economic sector, employing all segments of labor, especially women and youth.** According to the UNWTO, for every dollar spent on tourism, on average US$3.2 is generated in GDP across the entire economy. Tourism is the first or second source of export earnings in 20 of the 48 Least Developed Countries. An increasing number of governments now see cultural and natural heritage sites as significant tourism assets which must be conserved and managed to remain competitive, create employment opportunities and benefits for local communities, improve services and quality of life to residents, and be passed on to future generations. Tourism is a labor-intensive sector, generating a wide range of jobs from highly skilled to entry level and is highly inclusive of women, youth and under-represented groups in the labor market. Intangible cultural heritage, e.g., artisanship, costumes, dance and cuisine, provide inclusive economic opportunities especially to women, while promoting culture respect, social capital and social cohesion. Tourism generates one out of every 11 jobs globally, and the sector now accounts for 266 million jobs worldwide. Women have a proportionally higher share of the workforce (at 50 percent) compared to other sectors, and are almost twice as likely to be owners of small and medium tourism enterprises. There are often more opportunities for women to participate in the formal and informal tourism-related food industry,
artisanship and self-employed home-based work than in other sectors. Tourism also employs young people at almost twice the rate of other industries. Since the World Bank began financing projects in this area in the 1950s, the Bank has invested/committed about US$9.5 billion in over 600 projects, in addition to providing technical assistance across the regions.

31. **Integrating tourism in wider local economic development makes the sector more resilient.** Lessons from similar projects, particularly the ones successfully designed and implemented in Georgia, Lebanon and China, show that project funds can be most effective if used to maximize the competitiveness, profitability, economic impact and value added at each link in the chain that delivers a product or service. Based on experiences from neighboring countries, e.g., Fiji, Singapore and Indonesia, tourism in PNG has the potential to end extreme poverty and improve shared prosperity and living standards of the bottom 40 percent in tourist destination areas (the World Bank twin goals), which are all outside of the Port Moresby, the country’s largest urban area. As demonstrated around the world, e.g., Georgia, Turkey and Singapore, with careful strategic planning and relatively modest public sector investments, the tourism sector can be nurtured as an alternative and sustainable source of economic and employment growth at a time when agriculture's share of GDP and employment is limited and the minerals and energy extraction sector cannot sufficiently absorb a large share of the labor force.

32. **Investments in the tourism economy should be carefully blended in wider tourism and provincial development plans.** Tourism can suffer from an intrinsic location-based weakness, as it is exposed to a number of exogenous factors and economic shocks. For this reason, the Project integrates physical investments with community and MSME support not only in tourism, but also in artisanship, aiming at developing a broader economic basis in the targeted provinces.

33. **Investments in livability and service delivery enhances the competitiveness of a location to attract businesses.** Projects that were successfully implemented in other regions of the World Bank show that the renewal of historic cores of hubs and cultural heritage sites can be part of a spatial transformation that make these areas more attractive for residents, visitors, and businesses.

34. **Restoring built assets and reusing under-utilized land supports the World Bank Group’s inclusive green growth agenda.** Regenerating city core areas minimizes the need of new development. This process requires a complex, well-integrated mix of uses, all within walking distance. Despite the investments required to renew buildings, these areas have the potential to stimulate a city’s economy, revitalizing the built environment and its vitality and attractiveness, which helps create permanent jobs. The Bank has a robust practice in restoring and protecting historic city and cultural heritage, with close linkages to natural heritage and sustainable tourism.

35. **The World Bank Support for cultural heritage and related cultural industries has increased dramatically over the last decade, with a wide range of experience from restoration of historic cultural sites to a wide range of support to artisan groups.** The Bank’s interest in supporting artisan groups is understandable given that women and the extreme poor tend to be over-represented in the industry. Further, the broad based job creation potential his huge; in India it is estimated that 11 million individuals are employed just in the Handloom and handicraft sector.
alone. Experience from South Asia indicates that support to the industry has seen large increases in incomes in poor households, reduced migration in search of unskilled jobs, and the opening up of new markets for products. In Africa, support to artistic endeavors has been just to promote social cohesion and community resilience.

36. The Project also builds on the Bank’s extensive experience with community-driven development, including in PNG and other parts of the Pacific. Component 2.2 draws on experience with community owned and maintained infrastructure and livelihoods development. Experience in this area has shown that it is important to provide capacity development for both project staff and communities for long-term sustainability and enhanced social capital formation. Investment support for community prioritized activities and strong links with other actors in the market value chain need to be promoted as part of a package of support (in this case for example linking artisans with curators, tour operators etc.).

37. The Bank has a wealth of experience in promoting inclusive development, and in particular women’s voice, safety and economic opportunities both globally and in PNG. In PNG, and the Pacific more generally, the Bank has put reducing gender inequality at the “front and center in the World Bank’s Strategic engagement”5. Needless to say, this is a complex task. For example, gender-based violence, which affects all aspects of women’s economic and social wellbeing, are some of the highest in the world in PNG. Further, community and household systems of authority and decision making and often dominated by men, so even local initiatives need to actively target women. In recognition of these inequalities, most Bank projects in PNG use gender segregated consultation mechanisms in their community engagement strategies. Based on experience from the Bank’s Urban Youth Employment Project, specific targets/quotas will be used for workforce development training and various TA support provided by the project. Similarly, 50 percent of community grants provided under component 2 will be provided to women-led groups. Additionally, infrastructure investments will be screened for gender impacts, seeking to identify ways in which to address safety, inclusion and benefits for women.

38. Investment in the development of community-based enterprises needs to balance community vision with market demand. There is much evidence from misguided tourism development interventions around the world where investments have been made in programs to support communities to develop tourism/related products and experiences, but have failed to consider market demand, i.e. what products and experiences tourists are willing or able to buy. Similarly, there are examples of product and experience development initiatives which have not adequately consulted with host communities and/or been developed with respect to their wishes and needs. This project has been designed to mitigate the risk of either scenario. It will draw on findings of a market demand study to identify the type of enterprise which have market potential, and will entail extensive, ongoing community consultations and awareness raising to identify communities with the interest in, and potential to, develop such community-based enterprises in a way that aligns with their vision.

39. The Project’s support for extensive inclusive community engagement, and the conservation and promotion of the unique natural and cultural assets, also builds on a wide range of safeguards related experience in the Bank. Ensuring that these principles are actively

5 The Pacific Engagement note on Gender 2016
supported by specific project activities and addressed upfront in project design in general will ascertain that there are not issues with safeguards compliance as the project develops.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

39. The Ministry of Tourism, Arts and Culture (MTAC) will be the main government counterpart responsible for the proposed Project. The Tourism Promotion Authority (TPA), will be the Project Implementing Entity, responsible for all aspects of Project implementation, including fiduciary and safeguards responsibilities, as well as monitoring & evaluation and reporting results. The TPA is a Statutory Body established under Section 8 of the Public Financial Management Act (PFMA) and governed by its own act, the Tourism Promotion Authority Act 1993, reporting to the Minister for Tourism Arts and Culture.

40. Given the complexity of tourism development projects and the overall challenging project implementation realities in PNG, TPA will hire a Project Management Company (PMC) to provide technical, fiduciary, safeguards and monitoring and evaluation support during project implementation. Until the PMC is contracted, TPA will be supported by a small group of fiduciary and safeguards consultants.

41. TPA will support national level initiatives and work in collaboration with local and provincial stakeholders on key infrastructure and capacity building activities. TPA will be supported by regional coordinators in each province, who will coordinate the dialog with different stakeholders, especially as TPA does not yet have a permanent presence in the provinces. TPA will sign a Memorandum of Understanding (MOU) with each provincial government, stipulating roles and responsibilities at the Project level. At the subproject level, and before implementing any subproject, TPA will sign a tripartite Investment Subproject Agreement (ISA) with the provincial government and respective local-level government (or other agency which own the assets, e.g., national museum or Water PNG). The ISA will define roles and responsibilities during subproject implementation, as well as the hand-over process of assets after being rehabilitated/constructed. The Project Operations Manual (POM) stipulates all steps of subproject identification, screening, preparation, implementation and hand-over process, and provides criteria and templates, including for the ISA. See chart illustrating implementation arrangement in Annex 3.

42. A Working Group, composed by the technical representatives of the two provinces benefiting from the Project, various ministries and agencies involved as well as the Project Implementing Entity, will be established. Its function is to ensure effective inter-agency communication, with the responsibility of facilitating Project implementation and removing any barrier to smooth implementation.

B. Results Monitoring and Evaluation

43. TPA will be responsible for the monitoring and evaluation (M&E) of the Project outcomes against agreed indicators as presented in the Results Framework (Annex 1). Ongoing process monitoring and targeted action research will be designed to not only monitor results, but also to
support ongoing adaptation and implementation support as necessary. To support M&E, the Project will contract international consulting firms to assist in collection and analysis of household data and a mapping of tourism related products and service to construct the baseline for the Project. An effective M&E system will be established to enable annual reporting of key targets, disaggregated by gender. The cost of these services, as well as raising the institutional capacity to sustain Project’s interventions, is built into the Project’s design (Component 1.1 and Component 3). The TPA will produce biannual progress reports to assess implementation and suggest any need for adjustments.

C. Sustainability

44. The Project emphasizes sustainability of development impact, operations and maintenance (O&M) of rehabilitated assets in the following ways:

- National, provincial and local agencies have all been engaged in the design of the Project. They will continue to be part of implementation and supervision. This will ensure that local knowledge is incorporated and that there is full acceptance.
- All investment proposals will be screened against sustainability criteria outlined in the Project’s Operations Manual (POM). Investment Subproject Agreements (ISA) with local and rural governments, clearly assigning them the responsibility for O&M of assets, will be signed prior to starting any investment.
- Tourism facilities constructed under the Project will be operated by local governments or leased out to private operators through a transparent and competitive process.
- The focus on cultural heritage ensures a valuing of both tangible and intangible cultural heritage that will support the protection of these assets over the longer term.

45. The Project will fund the preparation of a Strategic Environmental, Social and Cultural Heritage Assessment (SESCHA) to ensure sustainable environmental and social impact of tourism development in the two provinces. The SESCHA’s objective is to assess the cumulative and indirect impact of increased tourism in the two provinces in light of the Provincial Tourism Strategies.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

46. According to the Systematic Operations Risk- Rating Tool (SORT), the overall implementation risk is assessed as Substantial.

47. The sector strategy and policy framework risk in supporting tourism in PNG is assessed as Moderate. Presently, within the Ministry of Tourism, there are three line agencies: (i) the Tourism Promotion Authority (TPA); (ii) the National Culture Commission; and (iii) the National Museum and Galleries. An umbrella department of the Office of Arts, Culture and Tourism (OTAC) was established to coordinate the effort of the three agencies and report to the Minister. However, the necessary resourcing and effective operationalization of this concept was not achieved, and the government is transferring all of OTAC’s responsibilities to TPA. This recent development is a
risk mitigation as TPA is now the leading agency for tourism planning and policy, tourism product development and marketing and promotion. It is guided by the PNG Tourism Sector Review and Masterplan 2007-2017 to lead national programs and support provincial initiatives.

48. The technical design of the Project, which is multi-sectoral in nature with several subprojects identified that will only be fully prepared and appraised during Project implementation, represents a Substantial risk. Multiple activities with local and central level agencies may hinder timely and quality implementation of the Project. To mitigate this risk, a thorough system of screening, prioritizing and evaluating proposed subprojects has been established, detailed in the POM and applied during Project preparation. Only critical minimum activities with the highest impact that can directly contribute to the achievement of the Project development objective and desired results, will be selected. Subprojects will be selected based on objective and transparent criteria outlined in the POM, including cost-benefit/cost effectiveness analysis and community development impact. Furthermore, at macro level, the parallel development of a National Tourism Strategy and two Provincial Tourism Strategies will facilitate whole-of-government and national/sub-national coordination in tourism planning and development.

49. Another design risk relates to the geographic spread of the Project activities in two provinces, which affects the institutional capacity for implementation and sustainability. To mitigate this risk, TPA will hire a Project Management Company (PMC) to support with all fiduciary, safeguards, construction supervision and provide quarterly M&E reports. The PMC will be housed within TPA office at the central level, and has offices within each provincial administration to ensure on-the-job training.

50. The safeguards risk is assessed as Substantial. The Project includes investment components to develop infrastructure and thus triggers the OP/BP 4.01 Environmental Assessment. None of the activities are expected to have significant, long-term, or irreversible impacts on the natural environment. Thus, the Project is classified as environmental Category B. An Environmental and Social Management Framework (ESMF) has been prepared for the Project to guide the preparation of subproject-specific Environmental Management Plans (EMPs). Although the Project does not envisage any resettlement or land acquisition, a Resettlement Policy Framework has been prepared and disclosed, along with the ESMF. The Project will include a grievance redress mechanism (GRM). This GRM will be administered by the Project implementing entity, supported by the PMC, and will allow citizens to provide both positive and negative feedback on the Project.

51. Institutional Capacity for Implementation and Sustainability is rated Substantial. TPA, as the project implementing entity responsible for all aspects of project implementation is new to Bank projects. Similarly, the fiduciary risk is also assessed as substantial. The complex nature of tourism development investments within a challenging implementation environment in PNG presents a risk to the project. As a result, TPA will be supported by a project management company during project implementation.

52. Risk with Stakeholders is rendered Substantial. The tourism industry is cross-sectoral by nature, involving dialogue and coordination of multiple stakeholders. Moreover, project implementation will include both national and provincial stakeholders within a society that can
have low levels of trust. Consequently, consultations have been central in project design and will continue playing an important role during project implementation. Furthermore, stakeholders will have access to grievance redress services.

53. Another risk, relating to safety and security, is assessed as Moderate. As PNG does not have a good safety and security record, especially in the capital city and the highlands, the proposed Project intends to focus on two provinces with a positive track record on safety, security and community friendliness. Nonetheless, there have been a couple of isolated incidents with no casualties during the second half of 2016 in Alotau, resulting in the recall of cruise passengers on one occasion. The Project design will include activities to mitigate potential negative impacts based on the finding of a Strategic Environmental, Social and Cultural Heritage Assessment (SESCHA) and Project consultations. The SESCHA will also assess safety risks for women and suggest specific measures. This assessment and security measures will be continuously monitored during Project implementation.

54. Another risk relates to climate change and geophysical hazards, and is assessed as Moderate. A Project-specific Climate and Disaster Risks Screening Tool has been prepared. It has provided due diligence on climate and disaster risks at an early stage. The tool has used an exposure–sensitivity–adaptive capacity framework to consider and characterize risks from climate and geophysical hazards, based on the proposed key components of the Project and its broader development context. PNG lies on the Ring of Fire, an earthquake prone zone in the Pacific. Earthquakes in the past have caused large numbers of casualties. Volcanic activity has also occurred in each of the Project’s provinces, most notably in 1937 and 1994 in Rabaul. These led to the founding of the Rabaul Volcano Observatory which is a technically sound institution (supported by DFAT) and watches over the many active volcanoes on Papua New Guinea. The World Bank financed some reconstruction activities after the 1994 devastating eruption. Some of the Project areas may also be vulnerable to landslides caused by flooding or earthquakes. The vulnerability depends on the Project works’ vicinity to potential landslide areas. No civil works construction or rehabilitation will take place under this Project in high risk areas.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

55. Economic benefits. The economic benefits to be generated by the Project have been valued at the incremental income derived from increases in direct, indirect and induced spending by foreign tourists in the provincial economies of Milne Bay and East New Britain (ENB). Foreign tourists spent approximately US$60 million in the two provinces in 2015 (Table 1). Each province accounted for about half of total spending. Foreign tourists arriving by air accounted for 96 percent of total spending (not including spending on air transport and 50 percent of spending on pre-booked tours through international cruise lines, which do not benefit the local economy). Project-financed investments are expected to result in substantial increases in income from foreign tourists. These benefits would increase from US$0.6 million in 2020 to about US$26.1 million in 2041, the last year of the Project’s assumed economic lifetime (see Annex 5 for details).

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6 No economic analysis was prepared for Component 1 because of methodological difficulties with the valuation of benefits from institutional strengthening.
Table 1: Arrivals and Spending of Foreign Tourists in Milne Bay and ENB, 2015

<table>
<thead>
<tr>
<th>Province</th>
<th>Arrivals by Air</th>
<th>Arrivals by Ship</th>
<th>Total Spending (US$ million)</th>
<th>By Air as % Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milne Bay</td>
<td>4,700</td>
<td>79,200</td>
<td>28.6</td>
<td>29.9</td>
</tr>
<tr>
<td>East New Britain</td>
<td>5,200</td>
<td>19,700</td>
<td>29.2</td>
<td>30.2</td>
</tr>
</tbody>
</table>
| **Total**      | **9,900**       | **98,900**       | **57.8**                      | **60.0**          | 96

Source: World Bank estimates based on IFC et al (2016) and Tourism Bureaus of Milne Bay and ENB.

56. **Economic costs.** The available budget for components 2 and 3 is US$16 million, of which US$13 million would be used for infrastructure and supporting activities (such as supporting tourism business development) and the remaining US$3 million would be used for related infrastructure designs, supervision and project management. All applicable taxes would be financed from the IDA credit, and the after-tax budget was estimated at US$14.5 million. No conversion factor was applied given PNG’s heavy reliance on imports. The economic investment cost was therefore also estimated at US$14.5m. The economic cost of management, operations and maintenance cost of infrastructure subprojects was estimated at 3 percent of the economic investment cost. The residual value of the subprojects was estimated at 20 percent of the investment cost, to be realized at the end of the subproject’s 20-year economic lifetime.

57. **Economic internal rate of return.** The economic internal rate of return (EIRR) of the net benefits from the Project was compared to the economic opportunity cost of capital (EOCC), and the Project was deemed economically feasible if its EIRR exceeded the EOCC. Following the Bank guideline, the EOCC was estimated at double the long-term per capita economic growth rate of PNG, or 9 percent. The EIRR of the net incremental income generated by the Project was estimated at 23.2 percent, which is substantially higher than the minimum required rate of 9 percent. This means that the Project is economically feasible based on the valuation of quantifiable benefits. The same conclusion can be derived from the economic net present value (ENPV), which was positive when discounted at the EOCC (US$38.4 million).

58. **Sensitivity analysis.** Sensitivity tests were conducted by varying the assumptions about the key drivers of the Project’s economic benefits: (i) growth in foreign tourists arriving by air, (ii) average daily spending by foreign tourists arriving by ship, and (iii) multiplier values. The results of the tests indicate that the economic feasibility of the Project is most sensitive to unfavorable changes in the growth of foreign tourists arriving by air. If the assumed growth rate is 10 percent higher than the growth in global tourism (3.6 percent p.a.) instead of 20 percent higher (4.0 percent p.a.), the EIRR drops from 23.2 percent to 17.7 percent. If the combined value of the three multipliers is reduced by 20 percent, from 0.94 to 0.75, the EIRR drops to 20.4 percent. The Project remains viable until the combined multiplier value drops below the much lower switching value of 0.25. This means that the economic viability of the Project is not very sensitive to changes in the original multiplier values, which were already conservatively estimated. The Project’s

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economic viability is even less sensitive to assumed values of average daily spending by foreign cruise ship tourists. If the assumed increases in average daily spending in the ports of Alotau, Milne Bay islands and Rabaul are reduced by 50 percent, the EIRR drops to 22.7 percent. In fact, the project remains economically viable without any increase in spending by foreign cruise ship tourists. This is because increases in spending by foreign tourists arriving by air are far more important than increases in spending by cruise ship tourists. Even if all of the assumed adverse changes to key drivers of economic benefits would happen simultaneously, the Project would remain economically feasible with an EIRR of 14.4 percent.

B. Technical

59. The Project consists of two main components that will help to improve the local economy and create jobs through tourism development. The investment subprojects are carefully selected and appraised to boost the two provinces’ economic development and promote private sector investments. The Project will help increase tourism arrivals to the provinces through focused tourism development and marketing activities. It will achieve this by introducing an integrated approach that focuses on institutional strengthening, priority infrastructure development, site/product/experience development, urban renewal or cultural heritage conservation/restoration, intangible heritage industry development and targeted destination branding and marketing, including:

- Carrying out integrated urban redevelopment of Project target areas, including rehabilitating the central parks, water supply and drainage systems, road and sidewalk network, public space, street lighting posts, and museums;
- Establishing a destination management office in each province to support destination development, marketing and promotion, visitor’s management plans, community engagement strategy and performance monitoring, as well as partnership with the private sector and local community groups;
- Establishing an Arts and Cultural Center to drive quality enhancement, product development and market linkages of arts and culture sector in each of the two provinces;
- Identifying the most promising tourism products (ecotourism and cultural heritage), and showing the most attractive sites, which can provide tourists with rich experiences;
- Site development and management of selected cultural heritage sites with significant monuments, such as Volcano Observatory in Rabaul, WWII relics or unique vernacular architecture (involving construction of a tourism facility at each site, that includes public parking, toilets, waste management, souvenir shops and information kiosks); and
- Monitoring and evaluating performance.

60. Implementation of these activities and related investment subprojects is expected to contribute to an increase in tourist arrivals in the two provinces, as the new/enhanced sites and products, combined with improved marketing, will attract more visitors from identified target markets. In doing so, these activities will catalyze other investment in the tourism sector, by the private sector (e.g., new or upgraded/expanded accommodation) and public sector (e.g., supporting infrastructure). The benefits of these activities to the local community extend beyond employment opportunities for those working in tourism-related jobs, to broader benefits to the local population from improved infrastructure such as roads, and greater amenity from public places such as recreation areas.
61. The counterparts requested a Project Preparation Advance (PPA) in the amount of US$820,000. The PPA will finance preparation of (i) the first phase of the national and provincial tourism strategies; (ii) Alotau city vision; and (iii) mapping of potential community sites and artisan groups in each province under Component 2.2. It will also fund the hiring of key technical, operational and fiduciary consultants until a Project Management Company (PMC) is hired after effectiveness.

62. Physical investment subprojects will be tested and appraised against the following criteria (detailed in the POM): economic viability and socioeconomic benefits for communities and tourists alike; no major safeguards assessment requirements (category B or C); and community consultation and buy-in. The following subprojects have been identified as high priority infrastructure investments in past strategies and during stakeholders’ consultations. They will be further investigated through the tourism strategies.

- **Alotau foreshore upgrading and development.** With the growth of the cruise ship industry, and the increasing number of cruise ships bringing thousands of tourists to the shores of Alotau and several other locations in the province, there has surfaced a need to put in place facilities and initiatives to allow for more tourists to come ashore and also to spend on local activities and sightseeing. This investment will also benefit the people of Alotau.

- **Alotau streetscape.** The beautification of the streets from the port to Massim Cultural Center has been identified as a priority infrastructure need by past strategies and stakeholders. The proposed subproject will include upgrading of sidewalks, storm-water drainage, street lights with energy efficient bulbs, and trees/palm trees plantation. The proposed subproject will create a more livable, safe and welcoming environment for locals and tourists alike.

- **Road rehabilitation from the Rabaul port and construction of a hand-crafts local market.** This road is used by about 200 passenger minibuses bimonthly to take tourists from the cruise ships around Rabaul, Kokopo, and attractions in the province. The road has several potholes and is temporarily fixed the day before a cruise ship arrives. The proposed subproject can also include the construction of an open-air artisan market using local traditional construction materials (timber and sago leaves), similar to the Kokopo market.

- **Rehabilitation of Bita Paka War Cemetery.** The Rabaul (Bita Paka) War Cemetery, established in 1945, is currently one of the most important and unique site visits in ENB. The cemetery contains 1,120 Commonwealth burials of the Second World War, 500 of them unidentified. The cemetery contains the Australian and Commonwealth graves of those killed during operations in New Britain and New Ireland during World War II, or who died while prisoners of war. The cemetery also contains First World War graves brought in from Rabaul Cemetery in 1950 and from Kokopo Old German Cemetery in 1961. In all, 32 First World War servicemen are now buried or commemorated in the cemetery. The cemetery is managed by the Commonwealth War Graves Commission. The subproject would rehabilitate the access road and improve project site management,
including street lights, hand-craft kiosks for local community to sell their products, public toilets, signage and interpretation panels.

63. Overall, investment subprojects (see list in Annex 2) will be vetted and prioritized by the provincial tourism strategies. They will be appraised on a rolling basis once designs are completed under the Project.

Readiness

64. In addition to implementing the PPA, the Project is ready for implementation by the time of effectiveness. The TPA has been working closely with the two provinces and other institutions concerned. The following documents have been prepared and reviewed by the Bank:

- A Project implementation team has been set up within TPA, with a Project Director, who is TPA’s Director for Policy and Planning, together with key fiduciary and technical staff who are TPA staff.
- A Project Operations Manual has been prepared by TPA with clear sections on subproject cycle, guiding principles in working with the provinces and their local and urban governments, implementation arrangements and templates of SARs, ISA, ESMP, etc.
- ToRs for Project Coordinator, FM, and procurement consultants to support TPA in managing the PPA prepared and advertised.
- TORs for the national and provincial tourism strategies, as well as the Alotau Urban Vision, prepared by provinces/TPA and will be tendered under the PPA.
- TORs for Project Management Company (PMC), including construction supervision and safeguards monitoring prepared by TPA.
- TORs for detailed designs and preparation of bid documents of early implementation subprojects, prepared and will be tendered under the PPA, so that construction starts soon after effectiveness.
- TORs for a mapping of potential community sites and artisan groups for possible support under component 2.
- TORs for performance M&E and baseline date prepared.
- Initial Procurement Plan, including for the PPA, prepared.
- Resettlement Policy Framework (RPF) prepared by TPA, through its hired consultant, public consultations held, and publicly disclosed on November 21, 2016.
- Environmental and Social Management Framework (ESMF) prepared by TPA, through its hired consultant, public consultations held, and disclosed on November 21, 2016.
- A draft TOR for the SESCHA, prepared by TPA.

C. Financial Management

65. The executing agency will be the Department of Treasury. The implementing agency will be the Ministry of Tourism, Arts and Culture (MTAC) which will delegate the fiduciary implementation arrangements to the PNG Tourism Promotion Authority (TPA). The project funds will be managed by the PNG TPA. TPA, as the project implementing entity, will be fully responsible for all financial management and disbursement arrangements of the Project.
66. The existing financial management system within TPA is adequate to meet the financial management requirements as stipulated in OP/BP 10.00. The Project’s overall financial management risk is rated as “Moderate”.

D. Procurement

67. TPA will be the project implementing entity, fully responsible for all procurement arrangements of the Project. A procurement assessment was carried out by the Bank team, mainly focusing on an assessment of TPA’s existing capacity, experience and practices for managing procurement. A summary of the procurement assessment including risk mitigating actions and procurement arrangements are in Annex 2.

E. Social (including Safeguards)

68. The Project triggers OP 4.12 Involuntary Resettlement. While no physical relocation of households is expected, land acquisition (of private land or reallocation of public, community) is likely to occur in some subprojects. Access to land will be on a negotiated basis wherever possible, and compulsory land acquisition will only be used in exceptional circumstances and in compliance with the PNG Land Act 1996. Any compulsory land acquisition, or any involuntary resettlement of land occupiers or users, will require a RAP or ARAP and will be carried out in accordance with the RPF. Any land negotiations, and in particular compulsory land acquisition or involuntary resettlement will take a long time and will require intensive management to avoid conflict and social impacts from the process. Project activities may also have temporary impact on livelihoods and small businesses located in the Project area. The Project will finance multiple subprojects in the two provinces. Each subproject may involve construction and/or rehabilitation of infrastructure related to the local economy and tourism development, such as visitor centers, arts centers, rest-stops, parking lots, roads or small bridges, marketplace spaces, among others. Most subprojects are likely to be implemented on public land or involve the rehabilitation of existing public buildings, however, some privately-owned land may also be affected. Subproject designs may include proposals to demolish old or unused structures on the project site. Due to these possible impacts, careful screening will be undertaken, based on provisions specified in the RPF and ESMF. Site-specific safeguard screening reports, environmental and social management documents, and RAPs, if applicable, will be completed for each subproject.

69. Indigenous Peoples OP/BP 4.10 is triggered as indigenous peoples (IP) communities may exist within subprojects’ areas of influence, however it is envisaged that in most cases the majority of beneficiaries under the subprojects will be IPs. Thus policy requirements of ‘free, prior and informed consultation’ and ‘equitable benefit sharing’ have been incorporated into the key safeguards documents and processes. A SESCHA will be prepared for the project, as will a mapping of tangible and intangible heritage in the focus destinations; both activities will inform overall project design to ensure that Indigenous rights and values are protected and respected. Further for subprojects which specifically deal with cultural heritage, a Cultural Heritage Site Management Plan will be prepared which will ensure IP communities will be provided with equitable and culturally-appropriate benefits from the subproject. A process of free, prior and informed consultations with affected communities will be undertaken to establish broad community support. It is expected that overall the project will support the rights and cultural heritage of IPs.
70. It is envisaged that communities in each site will be consulted at each key stage of the project. For example, community priorities and concerns will be central to the tourism plans developed for each site. The tourism office will be tasked with developing a community engagement strategy based on the operational manual to ensure ongoing linkages with the communities. It is envisaged that each subcomponent will need a site-specific engagement strategy as part of the design process.

71. The TPA has limited safeguards capacity. TPA staff will be dedicated to safeguards tasks for the duration of the project and their skills will be developed progressively through various capacity building activities. Specifically, this will include consultants engaged in preparing safeguards instruments working closely with the TPA counterparts to provide knowledge-sharing on safeguards policies and instruments. TPA will also be supported by a Project Management Company (PMC), which will assist with the implementation of project activities at the national level and provincial level. It will be a requirement that this company will have to have community engagement/safeguards expertise.

72. The Project is expected to have a positive social impact on local development, employment opportunities especially in higher skilled service areas related to tourism, and opportunities for small and medium business development. To maximize the impact of the Project on local communities, the Project should maintain a focus on supporting local businesses, and ensuring that existing small business activities will not only be shielded from negative impacts during Project activities, but can also grow in the medium and long-term as a result of the development benefits brought by the Project.

73. The SESCHA will be conducted at the beginning of the Project, and will include review of provincial development plans/programs in the Project beneficiary areas (including the tourism strategies) and potential social impacts such as change in indigenous identity and values, culture clashes, social stress and ethical issues. The SESCHA findings will be used to further refine the Project, feed into the community engagement strategies cited above and strengthen its potential positive overall social impacts.

Gender

74. The Project is likely to have differential impacts on men and women. It is expected to increase employment opportunities in tourism/hospitality sectors for women, and promote a range of other economic opportunities for women through the community grants. One of the key criteria of support for infrastructure investments under the Project is the expected impact on women and the bottom 40 percent. For example, given that women are often over represented in the craft or fruit and vegetable markets, these may be important sites of investment under the Project. Each of the TORs for technical assistance, preparation of plans, or implementation support will include a section on ensuring the gender aspects of the work are considered by the consultants. Where possible, specific targets will be included in the TORs. For example, if any workforce development is supported under the project, a 50 percent inclusion of women target will be included in the TORs. These principles of gender inclusion will be set out in the POM.
In terms of infrastructure design, and implementation, particularly attention will be given to women’s priorities and to site management arrangements, in terms of women’s safety and community education. Bank experience on community safety and market renovation in others parts of PNG will be drawn on to support the strategies to address various forms of violence against women in these contexts, and to ensure ongoing economic viability of the various market sites.

Overall, given the nature of the industry, as outlined above, it is envisaged that improvements and growth in the sector will mean increased employment opportunities for women. Furthermore, the community development component of the project will specifically target women lead initiatives for support; at least 50 percent of community grants will be awarded to women-led ventures. Women’s participation in local community project initiation, planning and implementation will also be expected for other grants which are not necessarily led by women.

The Project will ensure that women are adequately represented in all public consultations and ongoing citizen engagement activities. For example, women vendors will be consulted before markets and stalls are designed, and local women’s groups will be targeted in discussion over local infrastructure needs. Based on experience from other programs in PNG, the need for segregated consultations will be articulated in the Safeguards TOR’s and in the community engagement TORs. In assessing the demand for tourism sites and designing the marketing activities, the different experiences that male and female tourists would like to have will also be considered.

The Project will collect gender-disaggregated data to better understand and assess the role of men and women in the tourism economy and its potential impact on both. Several key Project indicators will establish targets for women beneficiaries.

Citizen Engagement

The key mechanisms for citizen engagement will be site-specific consultations ("community engagement meetings") for various subprojects, a range of ongoing engagement with the various groups selected under the community grants component of the Project, and a series of beneficiary surveys as required parts of the monitoring and evaluation of the Project. Further, the citizen engagement officer in the PIE/PMC will design an overall citizen engagement strategy that will inform the various approaches to engagement across the project. This strategy will be incorporated into the POM.

Consultations for various subprojects will be held in each subproject location and with invitations extended to the broad community with special focus on women, vulnerable groups, small business owners, NGOs or CSOs in order to have a broader discussion on opportunities for expanding Project benefits across the community and outlining potential social risks from the Project. As indicated above, separate women’s consultations will be held at each site as part of the consultation process. Where judged necessary due to cultural hierarchies etc., a separate youth meeting may also be held. A set of youth engagement activities will be explored with TPA and provincial governments as part of a more participatory approach to tourism promotion, and development of promotion materials.

In addition, TPA organized consultations on to discuss the ESMF and RFPs with national and local authorities, community representatives, and civil society during Project Appraisal. As
applicable, site-specific consultations will be held on Environmental and Social Management Plans (ESMPs), Environmental and Social Impact Assessment (ESIA) reports, or RAPs, in addition to the SESCHA. The established processes of grievance redress mechanisms at local and national (Project) levels with relevant contact points will be communicated during all community consultations.

F. Environment (including Safeguards)

82. The Environmental Assessment OP/BP 4.01 policy is triggered due to the Component 1 activities (preparation of a National Tourism Strategy and Provincial Tourism Strategies for East New Britain and Milne Bay provinces) which have potential induced impacts through attracting more tourist visitation and proposed physical interventions under Component 2. The types of sub-projects to be funded will facilitate local tourism developments and will include small infrastructure projects such as upgrades to handcraft market places, improved reliability for service provision to visiting cruise ships (e.g., water supply) and improvements to site management at discrete tourist destinations (e.g., parking, handcraft kiosks and public toilets). The project is proposed as Category B. The proposed investments are small-scale and potential adverse environmental impacts on human populations or environmentally important areas are less adverse and impacts are site-specific with few if any of them being irreversible. A Strategic Environmental, Social and Cultural Heritage Assessment (SESCHA) will be prepared under the project to ensure that potential cumulative and induced impacts of the project are assessed and that environmental and social considerations are integrated into TPA policy, planning and tourism destination development initiatives. Category A subprojects are not eligible for financing.

83. The proposed technical assistance activities under Component 1 are strategy focused and administratively focused however they have potential safeguards implications. Provincial Tourism Strategies are designed to increase tourist visitation to the respective provinces and this may result in adverse impacts in and around tourist destinations. Uncontrolled tourism can lead to impacts such as depletion of natural resources, pollution, physical impacts (e.g., on marine environments and from infrastructure development). Tourism can also put a strain on resources, and it can force local populations to compete for the use of critical resources. Given these potential impacts the project has prepared an ESMF and will employ international good practice by preparing a SESCHA.

84. Given that subproject details are not known prior to appraisal, an Environmental and Social Management Framework (ESMF), Indigenous Peoples Policy Framework (IPPF) and Resettlement Policy Framework (RPF) were prepared. These documents will guide the environmental and social assessment for future investment subprojects under the Project. The safeguard instruments to be prepared during implementation for the proposed subprojects will be an ESIA (commensurate with nature and scale of impacts), incorporating an Environmental and Social Management Plan (ESMP), and an Abbreviated Resettlement Action Plan (ARAP) where relevant. While the project has been designed to minimize resettlement and land acquisition if the scale of resettlement and acquisition is large full RAPs will be prepared.

85. The impact assessment of the subprojects will assess direct impacts but indirect, cumulative and induced impacts of tourism in the Project’s areas (particularly on the influx of tourists and impacts on basic infrastructure, environmental and sanitation services) and in PNG more generally
will need to be considered. Hence, it is proposed that the Project will fund the preparation of the SESCHA. The SESCHA’s objective is to assess the cumulative and indirect impact of increased tourism in the two provinces in light of the provincial tourism strategies.

Consultation and Disclosure

86. Consultation with potential beneficiaries and other stakeholders was undertaken during the preparation of the ESMF and RPF and included discussions with handicraft sellers and customary landowners of tourism sites in Rabaul (East New Britain Province) and stakeholder workshops in Rabaul and Alotau (Milne Bay Province) in September 2016. The ESMF, IPPF and RPF were disclosed at the respective Provincial Government offices, on the TPA website and at the World Bank’s InfoShop on November 21, 2016.

G. Other Safeguards Policies Triggered

87. The Natural Habitats OP/BP 4.04 is triggered to ensure that any interventions into the natural habitats and the areas in their immediate vicinity consider potential impacts and are fully harmonized and supportive of the habitat conservation goals. Site-specific ESIA reports and ESMPs will be developed for individual subprojects and will explain how the above principles should be integrated into the design and implementation arrangements of each subproject.

88. The Physical Cultural Resources (PCR) OP/BP 4.11 is triggered. Interventions are expected to support restoration, protection, interpretation and promotion of known cultural heritage sites/attractions as well as basic infrastructure such as the upgrading of handicraft markets and museums. Site-specific ESIA reports will incorporate a PCR Management Plan (as a sub-plan to the ESMP) including: measures to ensure preservation of known PCR and strengthening of TPA’s and Provincial Government’s institutional capacity for management of PCR; and a monitoring system to track the progress of these activities. Management plans will include detailed site descriptions and maps; details of the enhancement and / or tourism development proposals; and details of methods for asset protection (such as access infrastructure, fencing and signage). Where the subproject will involve a Cultural Heritage Site Management Plan as an output, the requirements of OP4.11 will be integrated into the Cultural Heritage Site Management Plan.

H. World Bank Grievance Redress

89. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.
## Project Development Objectives

**PDO Statement**

The project development objective is to improve tourism services in targeted destinations.

These results are at **Project Level**

### Project Development Objective Indicators

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Baseline</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR4</th>
<th>YR5</th>
<th>YR6</th>
<th>YR7</th>
<th>YR8</th>
<th>YR9</th>
<th>End Target</th>
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</thead>
<tbody>
<tr>
<td>Direct project beneficiaries (Number)</td>
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<td>2000.00</td>
<td>5000.00</td>
<td>15000.00</td>
<td>23000.00</td>
<td>30000.00</td>
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<td></td>
<td></td>
<td></td>
<td>30000.00</td>
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<td>Female beneficiaries (Percentage - Sub-Type: Supplemental)</td>
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<td>11500.00</td>
<td>15000.00</td>
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<tr>
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<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
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<td>1.00</td>
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<tr>
<td>Adoption and start execution of provincial tourism strategies</td>
<td>0.00</td>
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<td>2.00</td>
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<td>2.00</td>
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</table>
Increased number of cultural and natural heritage sites with improved infrastructure services based on sustainable site management plans (Number)

<table>
<thead>
<tr>
<th>(Number)</th>
<th>Baseline</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR4</th>
<th>YR5</th>
<th>YR6</th>
<th>YR7</th>
<th>YR8</th>
<th>YR9</th>
<th>End Target</th>
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<tbody>
<tr>
<td></td>
<td>0.00</td>
<td>1.00</td>
<td>2.00</td>
<td>5.00</td>
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</table>

Increased number of community-led enterprise that improve their economic livelihood (gender disaggregated, 50% women-led target.) (Number)

<table>
<thead>
<tr>
<th>(Number)</th>
<th>Baseline</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR4</th>
<th>YR5</th>
<th>YR6</th>
<th>YR7</th>
<th>YR8</th>
<th>YR9</th>
<th>End Target</th>
</tr>
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<tbody>
<tr>
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<td>20.00</td>
<td>60.00</td>
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### Intermediate Results Indicators

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<th>YR4</th>
<th>YR5</th>
<th>YR6</th>
<th>YR7</th>
<th>YR8</th>
<th>YR9</th>
<th>End Target</th>
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</thead>
<tbody>
<tr>
<td>Number of Destination Management Offices established in target provinces (Number)</td>
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<td>2.00</td>
<td>2.00</td>
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<td>250.00</td>
<td>600.00</td>
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<td>Project (gender disaggregated) (Number)</td>
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<tr>
<td>Number of traditional hand-craft markets rehabilitated/constructed (Number)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>1.00</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
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<tr>
<td>Number of museums refurbished (Number)</td>
<td>0.00</td>
<td>0.00</td>
<td>20.00</td>
<td>60.00</td>
<td>80.00</td>
<td>100.00</td>
<td>100.00</td>
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<td>Increase number of community-led micro enterprises to improve their economic livelihood (gender disaggregated, 50% women led target) (Number)</td>
<td>0.00</td>
<td>0.00</td>
<td>30.00</td>
<td>80.00</td>
<td>100.00</td>
<td>125.00</td>
<td>125.00</td>
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</tr>
<tr>
<td>GRM Indicator - Number of consultation workshops held with local communities (Number)</td>
<td>0.00</td>
<td>4.00</td>
<td>6.00</td>
<td>8.00</td>
<td>10.00</td>
<td>12.00</td>
<td>12.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRM Indicator - Percentage of registered grievances</td>
<td>0.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
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</tbody>
</table>
appropriately resolved within two weeks (gender disaggregated) (Percentage)

GRM Indicator - Percentage of beneficiaries that feel Project investments reflected their needs (gender disaggregated) (Percentage)

<table>
<thead>
<tr>
<th></th>
<th>0.00</th>
<th>60.00</th>
<th>80.00</th>
<th>100.00</th>
<th>100.00</th>
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</table>

100.00
## Project Development Objective Indicators

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Description (indicator definition etc.)</th>
<th>Frequency</th>
<th>Data Source / Methodology</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct project beneficiaries</td>
<td>Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.</td>
<td>Annually</td>
<td>Progress Reports</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>Female beneficiaries</td>
<td>Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.</td>
<td>Annually</td>
<td>Progress Reports</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>Adoption and start execution of a national tourism strategy</td>
<td>Government of PNG endorsement of the proposed PNG tourism strategy, plus their allocation of resources to its implementation, and mobilization of the Plan.</td>
<td>Annually</td>
<td>Progress Reports</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>Adoption and start execution of provincial tourism strategies</td>
<td>Government of PNG and Provincial Administrations’ endorsement of the proposed tourism development strategies for ENB and MB (one each), plus their allocation of resources to its</td>
<td>Annually</td>
<td>Progress Reports</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>Increased number of cultural and natural heritage sites with improved infrastructure services based on sustainable site management plans</td>
<td>Cumulative number of cultural and natural heritage sites which (i) have a Site Management Plan prepared and executed under the project, and (ii) as a result are equipped with tourism infrastructure (e.g., walkways, fences, signage, shelter).</td>
<td>Annually</td>
<td>Progress Reports</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>Increased number of community-led enterprise that improve their economic livelihood (gender disaggregated, 50% women-led target.)</td>
<td>Cumulative number of MSMEs, who benefit from community grants.</td>
<td>Annually</td>
<td>Progress Reports</td>
<td>TPA and PMC</td>
</tr>
</tbody>
</table>

**Intermediate Results Indicators**

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Description (indicator definition etc.)</th>
<th>Frequency</th>
<th>Data Source / Methodology</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Destination Management Offices established in target provinces</td>
<td>Cumulative number of Destination Management Organizations (DMOs) established under the project. One per province is required to guide and coordinate tourism development and marketing for all stakeholders.</td>
<td>Semi-annually</td>
<td>Progress Reports</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>Number of beneficiaries of skills development training provided by the project (gender disaggregated)</td>
<td>Cumulative number of MSME enterprise owners, and members of community-based enterprises, who receive training (including advisory services) under the project. This may be delivered by the DMO, or other sources mobilized under the project.</td>
<td>Semi-annually</td>
<td>Project Progress Report</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>Category</td>
<td>Description</td>
<td>Frequency</td>
<td>Reporting Method</td>
<td>Responsible Parties</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------</td>
<td>-------------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Number of traditional hand-craft markets rehabilitated/constructed</td>
<td>No description provided.</td>
<td>Semi-annually</td>
<td>Progress Report</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>Number of museums refurbished</td>
<td>Cumulative number of museums, art galleries or performance halls refurbished or established under the project, that tourists can visit as a local attraction.</td>
<td>Semi-annually</td>
<td>Progress Report</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>Number of street lighting posts replaced/installed with energy efficient bulbs</td>
<td>Cumulative number of street lighting posts replaced/installed with energy efficient bulbs under the project.</td>
<td>Semi-annually</td>
<td>Progress Report</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>Increase number of community-led micro enterprises to improve their economic livelihood (gender disaggregated, 50% women led target)</td>
<td>The number of community-based enterprises supported by the projects that provide a product or service to tourists (e.g. guest-houses, artisan groups, cultural dance group).</td>
<td>Annually</td>
<td>Industry survey in ENB &amp; MB (compare to control groups) Cultural heritage mapping and related progress reports</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>GRM Indicator - Number of consultation workshops held with local communities</td>
<td>Cumulative Number of consultation meetings and workshops held with local communities during project implementation</td>
<td>Semi-annually</td>
<td>Progress Report</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>GRM Indicator - Percentage of registered grievances appropriately resolved within two weeks (gender disaggregated)</td>
<td>Percentage of registered grievances appropriately responded within two weeks</td>
<td>Semi-annually</td>
<td>Progress Report</td>
<td>TPA and PMC</td>
</tr>
<tr>
<td>GRM Indicator - Percentage of beneficiaries that feel Project investments reflected their needs (gender disaggregated)</td>
<td>Percentage of project beneficiaries that feel Project investments reflected their needs (assessed through annual beneficiary feedback surveys)</td>
<td>Semi-annually</td>
<td>Progress Report</td>
<td>TPA and PMC</td>
</tr>
</tbody>
</table>
Annex 2: Detailed Project Description

PAPUA NEW GUINEA: Tourism Sector Development Project

1. The project development objective is to improve tourism services in targeted destinations. The Project will leverage opportunities for tourism development in the high-potential provinces of East New Britain and Milne Bay, and target key constraints currently impeding sustainable growth of the sector in these locations. The Project introduces an integrated approach that meets the need for: (i) stronger and more coordinated institutional and policy frameworks for tourism development across national, provincial and local levels; and (ii) improved/rehabilitated small-scale infrastructure for compelling tourism sites, products and experiences in the destination’s tourism hubs and connected spokes (e.g., cultural and natural heritage sites around each hub). Consequently, the improved institutional and policy environment will be more conducive to designing and implementing realistic tourism development strategies at national and provincial level. The provincial tourism strategies will be aligned with the current tourism product offering, which does not require massive investments during the next five years, but rather improvement and rehabilitation of existing tourism attractions. This will be achieved by supporting complementary small-scale infrastructure and product-support investments that can lead to a rise in tourist visits. The consequent rise in tourism spending will then increase the tourism income captured by Project beneficiaries, especially women. This will, in turn, fuel inclusive local economic growth.

DETAILED PROJECT DESCRIPTION

Project Components

2. Component 1: Institutional and Policy Frameworks (US$4.00 million): This component will seek to raise the standard of government entities integral to establishing and growing an effective tourism sector. Institutional strengthening and integrated planning at the national level, the provincial level (in East New Britain and Milne Bay), and the local level (in Kokopo, Rabaul and Alotau), will enable entities to carry out key priorities such as: improved destination planning and management; marketing and promotion; skilled workforce development and capacity building; product development; sustainable site management of tourism assets; and performance monitoring and evaluation activities. Support will ensure that all planning, design, implementation and monitoring activities are done in an inclusive and gender-sensitive manner.

3. Subcomponent 1.1. Strengthening the national and provincial tourism development framework (US$2.80 million). This subcomponent will support the Ministry of Tourism, Arts and Culture (MTAC) and Provincial Administrations and tourism stakeholders in East New Britain and Milne Bay to improve the national and provincial environments for tourism planning and development. In doing so, the subcomponent will initially support the preparation of Papua New Guinea’s 2018-2022 national tourism strategy. Similarly, the project will support the preparation of provincial tourism strategies for East New Britain and Milne Bay, which will be informed by a detailed demand assessment to be implemented by IFC. These five-year provincial tourism strategies will focus on improving the current tourism offering through small scale developments with high yield potential and low environmental and social impacts. Subsequently this subcomponent will finance priority TA activities identified as part of the strategies, including:
guidance for the establishment of effective and sustainable provincial tourism / destination management offices; the implementation of a targeted marketing strategy for each province; the delivery of workforce development and capacity building priorities at national and provincial level; facilitation of business support services to tourism-related MSMEs; and overall monitoring and evaluation activities. Lastly, this subcomponent will assist MTAC in the prioritization of other provinces that can benefit from the implementation of potential subsequent investments.

4. **Activity 1. Assessment of the Tourism Sector in PNG**

Before developing tourism strategies it is critical to understand learnings from previous ones and the current state of play of the sector. Therefore, this activity will involve extensive stakeholder consultation and desk study to inform:

- **A review of the current national Tourism Strategy**, including an analysis of challenges faced in progressing the agreed strategies and actions, to identify lessons to be considered in developing the new strategies. This will supplement the 2011 review of the Model Province Tourism Plans as an additional input;
- **A ‘Situational Analysis’ (diagnostic) of the tourism sector** to identify the institutional landscape for tourism development, analyze supply, and determine constraints to sector development. This will be complemented by a market demand study to be conducted in parallel by IFC;
- **A Tourism Supply Inventory/Audit** to list and map tourism supply including infrastructure, products, services, sites and experiences (broadly across the country, but with more detail for East New Britain and Milne Bay). Existing audits are available to facilitate this task.


With PNG’s 2007-2017 Tourism Strategy approaching its final year, this activity will provide a national framework to guide the development and promotion of tourism in PNG for the next five years. The development of the new tourism strategy will be informed by the preceding Sector Assessment and entail:

- **Consultations with key private sector, community, government, training, and development partner stakeholders** to identify a shared vision for tourism, and gather input on tourism development needs and opportunities;
- **Documentation of Strategic objectives, strategies and priorities** for the following aspects of the tourism value chain:
  - **Policy and institutional framework**. This section will recommend institutional arrangements that can better support tourism development, within the regulatory framework of the new Tourism Act. For example, this section will identify:
    - Policies for optimizing tourism development coordination across the Government institutions under Tourism, Arts and Culture, namely the Tourism Promotion Authority (TPA), the National Cultural Commission (NCC) and National Museums and Galleries (N MAG);
- Policies for optimizing tourism development coordination between the TPA and other national government institutions involved in tourism including agencies responsible for investment promotion, transport, airports, ports, small business development, internal revenue, commerce and trade, customs, foreign affairs, quarantine and immigration, the environment and conservation.
- Policies for optimizing tourism development coordination vertically between the TPA, and the provincial administrations and local authorities;
- Policies for optimizing tourism development coordination between the public and private sector nationally;
- Policies for optimizing tourism development coordination with development partners.

○ Market analysis and marketing. This section will validate and/or enhance the TPA’s Marketing Strategy 2016-2020 which is currently in development;

○ Product and experience development priorities. This section will:
  - Identify at a broad (national) level, the needs and opportunities for investment in accommodation, tours, attractions, niche experiences (e.g. culture, marine, adventure, war heritage), events, and ancillary tourism offerings e.g. artisan items, retail outlets, restaurants etc.;
  - Include recommendations for advancing tourism quality standards and accreditation to enhance and extend the program initiated by TPA for guest houses so far;
  - Profile the market gaps/needs, and proposed interventions for developing community-based enterprises, MSMEs and large tourism investments. This will inform what will be progressed under this project or facilitated through development partner programs. (Note: Based on consultations and research to date, there is a clear need to develop competitive cultural tourism products and experiences, and an opportunity to mobilize community enterprise programs to do this, using the World Bank’s Community Driven Development CDD model in PNG, overlaid with an enterprise development support program. This will be mobilized under Sub-Component 2.2 of this project. The needs of the private micro, small, medium and large businesses will be the subject of further scoping under the Strategy consultations).

○ Workforce Development. This section will identify training and capacity building priorities for employees of tourism businesses, self-employed business owners and MTAC institution staff.

- Development of an Action Plan to detail how set objectives in the national strategy will be achieved and to document specific activities, timelines, resource requirements and KPIs. This will include:
  ○ An ‘Immediate Action Plan’ with highest priority activities that can be delivered under this Tourism Sector Development Project; and
  ○ A ‘Medium to Long-Term Action Plan’ with activities recommended for subsequent Government and development partner support.

6. It is proposed that this National Tourism Strategy be developed concurrently with Provincial Tourism Strategies for East New Britain and Milne Bay (see Activity 2) in order to: mitigate the risk of duplicating stakeholder consultations; ensure relevant research is leveraged
across both activities; achieve cost savings from a combined exercise; and optimize the sequencing of activities in developing and implementing the plans.

7. **Activity 3: Preparation of provincial tourism strategies**
The preparation of comprehensive and actionable tourism strategies for East New Britain and Milne Bay (each) will provide a framework and detailed guidance on how tourism development should take place in the respective provinces, based on inputs from all stakeholders and insights from international best-practice. The strategies will be informed by findings from the Sector Assessment (Activity 1) as well as the impending IFC-funded support to TPA for an International Visitor Survey and Market Demand Study. Furthermore, the provincial strategies will inform, and be informed by, the national tourism strategy that is to be developed in parallel. They will adopt a similar framework, but the provincial strategies will detail province-specific needs and opportunities, together with an implementable action plan. This will help to ensure that there is a systematic and coordinated approach to tourism development in these demonstration provinces. This is essential if tourism development is to be sustainable; promoting development that protects fragile ecologies and respects local cultures. Important too is the opportunity that such a strategy provides for communities to be involved at the start, and not just brought in as an afterthought. The preparation of each strategy will build on the considerable amount of work that has already been undertaken in the provinces, including the 2006 Model Province Plans (which although 10 years old, feature much information that is still relevant), and the more recent documentation of tourism development vision, principles and ideas in each province. The (brief and high-level) ‘ENB Tourism Master Plan 2017-2022’ developed the following vision with tourism stakeholders: “ENB to have an educated, healthy and wealthy population living in a socially peaceful and wise community”, but government and industry have indicated a need to strengthen the plan’s direction for implementation. Similarly, in Section 4.5 of the Milne Bay ‘Integrated Provincial Development Plan 2016-2020’, the tourism vision for the province is identified as: “A vibrant, sustainable and community driven eco-tourism industry in Milne Bay”. Such visions and principles for provincial tourism development that have recently been agreed amongst stakeholders will form the foundations for the more comprehensive tourism strategies proposed under this project, which are needed to take this work forward to a stage where many components can be implemented.

8. The five-year provincial tourism strategies will focus on improving the current tourism offering through small scale developments with high yield potential and low environmental and social impacts. Therefore, they will entail the following tasks in each Province:

- **Tourism Hubs and Spokes Resource Mapping.** This will build on the tourism supply inventory for ENB and Milne Bay and situation analysis (both conducted under Activity 1), the IFC-support Market Demand Study (to be provided in 2017), and ongoing consultations to canvas local market/industry insights. It will identify and visually map the tourism hubs, spokes and connecting circuits in each province to visually present tourism resources including tourism infrastructure, sites, products and intangible experiences that are currently available, and those resources with the potential to enhance/develop tourism sites, products and intangible experiences. This activity will: (i) identify gaps in current supply of tourism infrastructure and products in identified hubs and spokes; (ii) describe in a general strategic upstream manner the nature of and rationale for the development of new
infrastructure, sites and products; and (iii) specify product/experience development opportunities that host communities/businesses want to progress.

- **Infrastructure priorities.** As the tourism strategies envision tourism development with low environmental and social impacts, this will only require small-scale/site-specific improvements or rehabilitations that do not affect areas broader than the sites. Therefore, a list of priorities for small-scale infrastructure and services will be determined through the tourism supply inventory/audit, and related hub and spoke mapping exercise. The business case, objectives, activities, timelines, budget and sources, responsibilities and KPIs will be identified in the strategies implementation plan.

- **Product, experience and facility development priorities.** Similar to infrastructure above, a list of priorities for product development and investment in accommodation, tours, attractions, niche experiences (e.g. culture, marine, adventure, war heritage), event and ancillary tourism offerings e.g. artisan/souvenir items, retail outlets, restaurants etc., will be identified through the tourism supply inventory/audit and mapping of these according to hubs and spokes. The business case, objectives, activities, timelines, budget and sources, responsibilities and KPIs will be identified in the implementation plan. Those with high priority will be addressed under this Tourism Sector Development Project (private MSMEs via subcomponent 2.1 and interested community-based enterprises via subcomponent 2.2). They will include feasibility assessment and will be based on maximizing community involvement.

- **Heritage Site Development Plans.** Site development plans will be produced for agreed high priority sites identified through the resource audit and mapping. These plans will determine the economic feasibility of each site and be based on maximizing community involvement within an appropriate legislative framework. They will be formatted as an investment portfolio, which should speed up the rate at which the proposed developments will be implemented. Development partners will be identified, especially at heritage sites. Guidelines on the natural and cultural sustainability of these sites will be included. Primary sites will receive detailed development plans specifying who will be involved, when the development will take place, what land tenure exists and how much it will cost. Secondary sites will have less detail. The site development plans will take into account ongoing events (e.g. new attractions being established).

- **Institutional Arrangements for Provincial Tourism Development and Marketing.** An institutional structure for managing tourism development and marketing in each province will be recommended, in alignment with the National Strategy. This will detail (i) the structure and accountabilities of the body/ies responsible for tourism development and marketing each province; (ii) a Terms of Reference, accountabilities, and staffing structure; (iii) mechanisms for tourism coordination with this body/these bodies, the TPA, other relevant agencies, industry and community; (iv) a resourcing plan including itemized budget (income and expenditure) through the short to long term; and (v) capacity building needs and solutions for staff to mobilize tourism development and marketing plans. The potential to transition the respective provincial tourism bureaus into a Destination Management Office (DMO) that can generate income from value added activities in the
future, will be scoped. Priority recommendations will subsequently be addressed under this Tourism Development Project. (See Activity 4).

- **Provincial Marketing Strategy and Annual Plan.** A medium-term Marketing Strategy will be developed for each province with the objectives of: (i) identifying target markets using available market analysis; (ii) creating a distinct brand image and identity that resonates with target markets; (iii) identifying communications and tactical marketing opportunities via optimal channels for reaching and converting target markets (e.g., social media, advertising, travel industry and media relations) and (iv) developing a local community awareness marketing campaign. This Strategy will be informed by the Market Demand Study and TPA Marketing Strategy. A Marketing Plan for the first year will also be developed to enable operationalization of the Marketing Strategy and provide a framework for annual marketing activity. This will detail proposed marketing activities that complement and/or supplement the broader TPA marketing activities. It will also feature timelines, responsibilities, budget amounts and sources, and KPIs. It is proposed that the medium term Marketing Strategy, and the first three years of the Annual Marketing Plans be funded under the Tourism Development Project, with a view to developing a public/private cooperative marketing model under a Destination Management Organization model (see Activity 5).

- **Workforce Development Priorities.** Tourism workforce development priorities for each province will be recommended, in alignment with that developed under the national Strategy, and with a specific focus on skills gaps within each province. Each plan will identify province-specific needs and opportunities for skills development for tourism employees and self-employed MSMEs in the respective provinces. It will also consider skills development needs for staff of provincial tourism bodies. These plans will include numbers of individuals to be trained in specific skills and knowledge, and propose how and where this training could be provided. Key objectives, activities, timelines, budgets and sources, responsibilities and KPIs will be detailed in the Provincial Plan’s ‘Immediate Action Plan’ or ‘Medium to Long Term Action Plan’, depending upon the level of priority. Those in the former will be addressed under this Tourism Development Project. (See Activity 6).

- **Economic base and forecast.** A forecast will be made of the value of tourism for each province, including a provincial breakdown. The possible development scenarios and their underlying assumptions will be outlined.

9. The remaining activities represent the implementation of high-priority initiatives identified under the National or Provincial Tourism Strategies:

10. **Activity 4. Setting up tourism destination offices in two provinces**
This activity will be informed by the recommendations under the ‘Institutional Arrangements for Provincial Tourism Development and Marketing’ in the Provincial Tourism Strategies. It will propose an institutional framework to ensure proper destination management, public-private partnership at the TPA level, as well as and sustainability of investments made in provinces.
Based on consultations and research to date, the assignment is likely to include the following activities:

- Provide institutional and legal advice to define the best organization for the proposed establishment of destination management offices in the two provinces;
- Design and implement a destination management network linking TPA to provincial and local level management and promotional activities;
- Help establish the Destination Management Office (DMO) in each province (attached to tourism information center), define institutional and work arrangements, draft staff job descriptions including scope of work and minimum qualifications, assist TPA in interviewing and appointing qualified staff, and offer on-the-job training to appointed staff;
- Determine a short and medium term funding model, with targets to generate income from industry stakeholders based on value provided by the office;
- Equipping the office to implement the Marketing Strategy and Annual Marketing Plan for the first year, and development of plans for each subsequent year (see Activity 5); and
- Provide training, equipment and software so the new offices can pursue their mandate effectively.

11. **Activity 5. Marketing and promotion**
This activity will mobilize the Marketing Strategy and Annual Plan developed as part of the Provincial Tourism Strategy. In doing so it will:

- Develop the brand identity for each province that resonates with target markets as recommended in the Marketing Strategy. This will include developing a tagline, logos, images and video footage, and the destination ‘look and feel’ for online and print materials, etc.;
- Develop online marketing tools (website and social media presence) and launch the online and social media marketing campaign as recommended in the Marketing Strategy;
- Develop print marketing / visitor information materials (e.g. brochures, guidebooks, maps) and mobilize a distribution plan (e.g. local channels for visitors, trade shows for clients etc.);
- Implement trade and media marketing activities as outlined in the Marketing Strategy and Annual Plan;
- Undertake local outreach campaign to engage local communities in tourism development;

12. **Activity 6. Workforce development and capacity building**
This activity will mobilize ‘Immediate Action Plan’ priorities from the Workforce Development section of the National Tourism Strategy and Provincial Tourism Strategies. Therefore, the specific activities will need to be informed by the proposed Skills Gap Analysis. Based on consultations and research to date however, the assignment is likely to include the following early implementation activity:

- A capacity building program for officials at the key Tourism Arts and Culture institutions (TPA, the National Culture Commission and the National Museum and Gallery), and officers in the proposed new provincial Destination Management Office.
13. **Activity 7. Business start-up/expansion advisory service to tourism MSMEs**

This activity will mobilize / facilitate connections to business development support initiative where relevant gaps are identified through the situational analysis and plans’ development. A small number of business development support programs are already serving micro, small and/or medium enterprises (MSMEs) are available in PNG. DFAT’s Market Development Facility serves SMEs with business advice and grant funding, whilst ADB’s Pacific Business Investment Facility (BIF) serves SMEs with business advice to access commercial funding. The government-funded Small Business Enterprise Centre (SBEC), and Business Advisors in the provincial government commerce departments are an intended source of business development advisory support for emerging business owners; however, there are reported shortcomings with these services. The situational analysis will help understand the local entrepreneurship development needs this project should address for MSMEs, if indeed any gaps exist. In the least this project – through the proposed establishment of Destination Management Offices in each province - will be able to facilitate linkages between new business opportunities and existing business support programs, micro finance providers and related resources. Any larger tourism businesses seeking investment and advisory services will be referred to IFC.

(Note: The identified need and opportunity for community-based enterprises to access technical, business and community governance support is being addressed through sub component 2.2. Growing demand from cruise passengers and the niche culture-based travel segment travelers for arts and cultural heritage products and experiences offers potential for communities to develop businesses; however, this calls for a tailored community development / entrepreneurship development hybrid which will be develop under this project).

14. **Activity 8. Performance monitoring and evaluation activities**

The activity will monitor the Project’s results indicators from the baseline, annually and cumulatively at the end of the Project implementation. Monitoring will not only cover the Project’s results framework, but also monitor overall change in tourism statistics, satisfaction and volume of private sector investments in the two provinces by measuring tourist arrivals/numbers, spending, satisfaction, occupancy rates, increases in tourism-related investments, and gender aspects, the Government will be better able to make adjustments when needed, and allocate resources for infrastructure, marketing, human resources, and policy reforms. At present, TPA and provinces have difficulty assessing the tourism activities in the provinces, as staff lack the expertise and financial resources to conduct surveys. Software available to date cannot accurately measure the accommodation statistics, and data are not reliable. However, as a parallel intervention to support TPA and this project, IFC is funding a new International Visitors Survey (IVS) initiative which will equip TPA with the resources needed to collect more reliable data from tourists in the future.

15. This activity will therefore involve (a) utilizing new IVS data, and (b) gathering baseline data from both formal and informal tourism enterprises about the length of tourist stays, as well as employment rates (by gender), tax revenues, estimates of tourism income, expenditures, rates of profitability, and other variables through surveys, interviews and questionnaires. The Government would learn the amount that tourism enterprises spend on local goods and services and thus be able to measure the indirect/direct impacts of the sector on the provincial and national economy. Also, the survey will collect and monitor relevant gender data to better understand the roles of males and
females in tourism, the potential impact of the Project by gender, and the constraints these entrepreneurs face in each of the two provinces.

16. In addition, as part of the Project’s results assessment and beneficiaries’ feedback, a baseline household survey is to be conducted to establish socioeconomic baseline data at the household level and solicit beneficiary’s aspiration feedback about the project. The survey will cover the main beneficiary’s settlements in each province. A follow up annual survey will be conducted to measure changes in household socioeconomic data and community feedback on the Project’s progress and results.

17. **Subcomponent 1.2. Strengthening provincial urban, cultural and community development frameworks (US$1.20 million)**. This subcomponent would support the underpinnings required to develop integrated tourism destinations. In doing so, this subcomponent would support (i) the preparation of a vision for Alotau; (ii) the preparation of site management plans for a selected cultural heritage sites; (iii) the provision of cultural heritage advisory services; (iv) the mapping of tangible and intangible cultural heritage in each province; and (v) the preparation of Strategic Environmental, Social and Cultural Heritage Assessment (SESCHA). This component would strengthen the capacity of the provincial institutions to support stakeholder engagement through public-private dialogue and increased awareness.

18. **Activity 1: Preparation of Alotau’s urban development vision**
The activity will help the city of Alotau to diagnose the existing situation, city development patterns, infrastructure audit and define, in consultation with the stakeholders, the city’s urban development vision and directions. The activity will not define an investment action plan or identify any large scale infrastructure projects that might be classified as environment category A. In doing so, the activity will begin to support Alotau development vision 2032: “Alotau will become nationally competitive and the first choice in Business, Tourism and Investment City in Papua New Guinea characterized by an attractive urban environment for all to live, enjoy and do business in a safe and secure environment; and that the government and customary landowners will fully participate together in urban development initiatives through the utilization of their urban customary land.”

19. **Activity 2. Preparation of sustainable site management plans for selected cultural and natural heritage sites.**
This activity will support the preparation of site and visitor management plans for key cultural and natural heritage sites. In each province, sites will be prioritized for Site Management Plans through the urban and/or provincial tourism development planning process. This activity will entail the following:
- Mapping sites and institutional responsibilities of O&M;
- Aligned with the SESCHA (see Activity 5), define and apply methods to assess each sites’ carrying capacity, based on local conditions and design a visitor management plan;
- Design guidelines for each site and a tool-kit for operating the visitor programs;
- Define and illustrate visitor trails, infrastructure, locations of service units, access and exits, and the nature of each site;
• Describe visitor flows and projections, needed infrastructure capacity, required staff and qualifications, parking, public toilets, O&M guidelines, translation aids and techniques, monitoring, research and conservation measures; and
• Design needed signage and interpretation panels.

This activity will be undertaken with staff from provincial and local level institutions in order to provide on-the-job training.

20. **Activity 3. Cultural heritage advisory service**
The objective of this activity is to (i) establish advisory service on the World Heritage Sites Tentative List for PNG (e.g., Milne Bay Seascape - The Pacific Jewels of Marine Biodiversity) and provide assistance to MTAC in preparing nomination files for new inscription of unique tangible and intangible heritage (e.g., PNG traditional costume, masks, kenu and music) as World Heritage; and (ii) provide on-the-job capacity building to national and local institutions on cultural heritage preservation and site management plans. This activity will be implemented by the UNESCO’s World Heritage Center on a cost recovery basis under a direct contract arrangement.

21. **Activity 4. Mapping of tangible and intangible cultural heritage in each province.**
This activity will extend the tourism resource mapping under sub component 1.1, to delve into more detailed mapping of tangible and intangible cultural heritage resources across each of the provinces, including and assessment of (i) cultural and tourism potential of the various resources; (ii) development needs and potential of various forms of artisanship; and (iii) the preservation and protection needs of different resources in relation to tourism development in each province.

22. **Activity 5. Preparation of Strategic Environmental, Social and Cultural Heritage Assessment (SESCHA).** The SESCHA will assess the preparation of the new National Tourism Strategy and two Provincial Tourism Strategies. It will analyse cumulative, direct and indirect implications of implementing the draft plan’s strategies on natural environment, social structure and for cultural heritage. The SECHSA will also provide recommendations on how to amplify positive impacts and avoid or minimize any risks that these plans may carry. The findings of the SESCHA will be integrated into the final tourism strategies.

23. **Component 2: Infrastructure and Community/Product Development (US$13.00 million).** This component will support the development of integrated tourism destinations in Milne Bay and East New Britain, as identified in the provincial tourism strategies. The implementation of the vision laid out in the tourism strategies will require small-scale/site-specific improvements or rehabilitations that do not affect areas broader than the sites, and direct support to community-led enterprises. The small-scale improvements will benefit the tourism hubs of Rabaul and Kokopo (East New Britain) and Alotau (Milne Bay), which are the main entrances to these provinces for tourists, by air (Tokua/Rabaul and Gurney airports) and sea (cruise ships and super yachts). Moreover, the project will also support the improvement of products in ‘spokes’ (attractions around the hubs), that are already accessible and where communities are willing to participate, by improving existing products and/or experiences (or clusters of such), based on niche themes (e.g., arts, culture, nature, WWII history) and/or geographic locations. This component will also provide targeted support for the development of community-led enterprises, through a grants and advisory program for communities that wish to supply products for tourists based around their cultural or
natural heritage. This approach will provide more compelling reasons for visitors to spend more time and money, thereby helping to share the prosperity generated by tourism growth.

24. **Subcomponent 2.1. Upgrading tourism infrastructure and heritage sites in urban and rural centers (US$10.00 million).** This subcomponent will support small-scale infrastructure rehabilitation to enhance key tourism assets. It will improve the overall quality of each hub destination in Rabaul, Kokopo and Alotau, and selected tourism spokes. Support would be aligned with the provincial tourism strategies. Support would include, for example, upgrading of parks, the development of provincial arts and cultural centers, museums, historical sites/walkways, markets and natural areas as determined by public and private sector prioritization. Upgrading activities would include improved signage, sitting areas, walkways, street lighting, water supply and sanitation facilities, small sized waste collection and access roads.

25. The general principles to identify eligible subproject investments include that they should:

   - Serve the purpose of improving the quality of life; helping meet basic social, environmental, and public health standards; and promoting local economic development.
   - Be identified primarily on the basis of locally determined needs, with particular attention to the needs and preferences of women.
   - Represent a technically feasible, least cost approach to addressing a specific problem or need, that when developed, makes the destination viable (i.e. not requiring complementary investments). Costs of subproject alternatives, including the cost of doing nothing, must be evaluated, and their economic and financial feasibility assessed.
   - Be consistent with the development objectives of tourism sector development strategies, and fall within the geographic coverage of the project.
   - Be supported by financial projections, demonstrating that the incremental financial impact of the subproject (including incremental costs for operation and maintenance) can be met by the local and rural governments from overall increased revenues and/or reductions in other expenditures.
   - Include a clear and complete financing plan, including evidence that the required counterpart contribution has been, or will be, secured on time and that debt service payments, together with other incremental operating and maintenance expenditures have been approved for inclusion in future budgets.
   - Be in full compliance with all relevant provisions of Papua New Guinea legislation and regulations, including environmental legislation. It must fall under environmental Category B or C, according to the World Bank’s OP/BP 4.01 Environmental Assessment, and documentation prepared for the subproject must meet requirements of all safeguard policies triggered by this subproject.

26. This subcomponent would also support the development of two provincial arts and cultural centers, linked to the National Museum and Gallery. The centers will be developed based on a
range of global models and will be linked into the vibrant network of Aboriginal Art Centers and their related fairs and markets in Australia. As cultural hubs, the centers will provide training, quality enhancement, product development, curatorial input and training, and market access and linkages. The focus of the centers will be on protecting and promoting the distinct cultural heritage and wide diversity of art practices in PNG, which in turn will serve to promote the image of PNG more generally as a tourist destination. The province based centers will also provide support to arts and hand-crafts initiatives supported under subcomponent 2.2.

27. **Proposed Subproject Investments in Milne Bay (subject to screening and appraisal on a rolling basis during project implementation).** The following list of proposed subproject investments for this component have been identified for the development of Alotau as a tourism hub and its connected spokes in the province. These are based on contributions from stakeholders during workshops in 2016, as well as the Provincial’s Government’s ‘Master Program and Projects’ matrix which includes priorities documented in the ‘Integrated Provincial Development Plan 2016-2020’, and identified by the Milne Bay Tourism Bureau. The airport and port provide adequate infrastructure for tourists to access the hub of Alotau, with only the Gravel Pit bridge, which connects the airport with Alotau, requiring rehabilitation. Tourist attractions in the spokes outside Alotau are mainly reachable by boat, with Alotau having the necessary jetties. However, access to the East Cape, which is the main point of entrance to Esa’ala and Kiriwina-Goodenough Islands requires a rehabilitation of the main road. This is being done by the World Bank’s Road Maintenance and Rehabilitation Project II, which is currently sealing the full length of the road between Alotau and East Cape, together with improving six existing bridges, shoulders, and drainage systems. The small jetty in East Cape requires upgrading to provide proper access to boats transporting passengers and cargo.

28. The proposed investments are subject to screening and appraisal on a rolling basis during project implementation, taking into account the findings of the demand assessments and Provincial Tourism Strategies. Therefore, this list may be updated during the development of the urban and Provincial Tourism Strategies. A small number of subprojects are identified below for ‘early implementation’ (e.g. commencing architectural and engineering design, economic assessment and safeguards documents), given their high priority and ‘ready-to-go’ status.

- **Alotau foreshore facelift and development.** With the growth of the cruise ship industry, and the increasing number of cruise ships bringing thousands of tourists to the shores of Alotau and several other locations in the province, there has surfaced a need to put in place facilities and initiatives to allow for more tourists to come ashore and also to spend on local activities and sightseeing. This investment will also benefit the people of Alotau.
  
  Note: This is identified as a possible ‘early implementation’ project.

- **Alotau streetscape.** The beautification of the streets from the port to Massim Cultural Center has also been identified as a priority infrastructure need. It will create a more welcoming environment for tourists and locals.
  
  Note: This is identified as a possible ‘early implementation’ project.

- **War memorial facelift.** Alotau is historic in terms of World War II. There are two war memorial sites located in the vicinity of Alotau town which are in need of rehabilitation.
- **Upgrade of water line to Alotau port.** When cruise ships arrive to Alotau, the water line to the town is disconnected in order to serve the cruise ship. The subproject will finance the construction of a dedicated water pipeline (1.2 km) from the water reservoir to the port.

- **Upgrade of central foreshore park in Alotau.** Alotau’s main public gathering space is centrally located, including large dilapidated green areas and markets. There have been plans to upgrade this area for many years to increase the attractiveness of Alotau, but it has not been possible due to lack of financing. Local vendors will be provided by an alternative nearby location to avoid any negative impact on their economic livelihood during the upgrading period.

- **Sanderson Bay waterfront improvements and park beautification.** This activity could upgrade the park used for the Kenu and Kundu Festival site. Semi-permanent craft huts could be established, and sitting benches placed along the walkway. This would also include the construction of toilet facilities and landscaping.

- **Deidei Hot Springs Attraction Development.** The Deidei Hot Springs located in East Fergusson Island has become an international tourist attraction, drawing visitors from all over the world to watch the amazing actions of nature as it shoots boiling geysers up to 20 meters at the call of the village elders.

- **Small-scale water and sanitation facilities at Kaibola/Kitava cruise tourism landing site.** With the growing number of tourists visiting on the cruise ships, there is an urgent need to build water and sanitation facilities at the Kaibola/Kitava jetty site.

- **Restoration of Cultural Heritage Villages.** There is an opportunity to restore a selected number of cultural villages in surrounding villages where the local people can display their rich cultures through dance, arts and crafts and folklore when tourists visit. Opportunities for such developments will be identified in the Provincial Tourism Strategies, and projects selected for infrastructure development could be tied to TA and funding under component 2.2.

- **Eco-Tourism Developments.** Developing ecotourism products and experiences is one option for ordinary village people to benefit from tourism. Milne Bay boasts of some of the most beautiful, unique and rich environments, from the mountainous to the seas, islands and atolls to the reefs and sea ways. Esa’ala is leading the way in re-introducing ecotourism programs with village guest houses, home-stay, bush-tracking, diving and fishing. The initiative has the potential to be spread to all districts and LLGs. Opportunities for such developments will be identified in the Provincial Tourism Strategies, and projects selected for infrastructure development could be tied to TA and funding under component 2.2.

- **Development of Cultural Festivals.** Cultural Festivals and events could be encouraged and held in the districts to promote and highlight the unique cultures of the various districts. In Esa’ala the Kula Festival has been revived. In Misima the Haptomwa Festival, and in the past Samarai has had the Giniuba Kaiheya. Opportunities for such events will be identified
in the Provincial Tourism Strategies, and projects selected for infrastructure development could be tied to TA and funding under component 2.2

29. **Proposed Subproject Investments in East New Britain (subject to screening and appraisal on a rolling basis during project implementation).** The following list of proposed subproject investments have been identified for the development of Rabaul and Kokopo as tourism hubs and connected spokes across the province. These are based on contributions during stakeholders’ workshops held in 2016, and consultations with the Provincial’s Administration and industry. The main access infrastructure is in place, with the airport and port providing adequate access to the hubs of Rabaul and Kokopo. The main road network also provides access to the major tourism attractions. Nonetheless, the road connecting the Rabaul port to the Rabaul-Kokopo road requires rehabilitation, especially given the heavy traffic when cruise ships are visiting. While the Vulcan section of the Rabaul-Kokopo road also requires rehabilitation, this is not technically feasible at the moment, requiring longer travel times between Rabaul and tourism attractions located in Kokopo.

30. **The proposed investments are subject to screening and appraisal on a rolling basis during project implementation, taking into account the findings of the demand assessments and Provincial Tourism Strategies. Therefore, this list may be updated during the development of the urban and Provincial Tourism Strategies. A small number of subprojects are identified below for ‘early implementation’ (e.g. commencing architectural and engineering design, economic assessment and safeguards documents), given their high priority and ‘ready-to-go’ status.**

- **Rehabilitation of road from the Rabaul port and construction of a hand-crafts local market.** This road is used by about 200 passenger minibuses bimonthly to take tourists from the cruise ships around Rabaul, Kokopo, and attractions in the province. The road has several potholes and is temporarily fixed the day before a cruise ship arrives. The proposed subproject will also include the construction of an open-air hand-crafts market using local traditional construction materials (timber and sago leaves), similar to the Kokopo market. Note: This is identified as a possible ‘early implementation’ project

- **Rehabilitation of Bita Paka War Cemetery.** The Rabaul (Bita Paka) War Cemetery, established in 1945, is currently one of the most important and unique site visits in ENB. The cemetery contains 1,120 Commonwealth burials of the Second World War, 500 of them unidentified. The cemetery contains the Australian and Commonwealth graves of those killed during operations in New Britain and New Ireland during World War II, or who died while prisoners of war. The cemetery also contains First World War graves brought in from Rabaul Cemetery in 1950 and from Kokopo Old German Cemetery in 1961. In all, 32 First World War servicemen are now buried or commemorated in the cemetery. The cemetery is managed by the Commonwealth War Graves Commission. The subproject would rehabilitate the access road and improve project site management, including street lights, hand-craft kiosks for local community to sell their products, public toilets, and signage and interpretation panels. Note: This is identified as a possible ‘early implementation’ project
• **Mask Festival Showground Facilities upgrade and site improvement.** ENB’s Mask Festival attracts visitors from all over the world and across PNG. However, the showground site does not have adequate facilities to host such an event. Improving the site and facilities will benefit both tourists and the local population. This infrastructure project could be tied to TA and funding under component 2.2.

  Note: This is identified as a possible ‘early implementation’ project

• **Rehabilitation of Museum and Art Gallery.** The objective of this investment is to physically rehabilitate ENB’s two museums/art galleries and improve exhibits display visitor management and experience. Kokopo War Museum (Kokopo Museum) began in the early 1980s as a small museum at the so called “Yamamoto Bunker” in Rabaul. It was moved to Kokopo to accommodate a growing collection, and in anticipation of any possible volcanic eruption. This museum contains a large collection of WWII artifacts from the Rabaul related to the history of the area, including local art & culture, German colonial period, prewar and WWII Japanese occupation. The New Guinea Club & Rabaul Museum was established in 1933. It was originally a businessmen’s club with strict guidelines for membership. It was badly damaged in WWII and rebuilt in the 1940s to its former glory, only to be destroyed again by fire in 1993. It has been partly restored and is now home to a small and interesting art items and unique WWII collection.

• **Rehabilitation of access road to Kokopo/Rabaul Japanese Barge Tunnels site and improved site management.** At Karavia Bay, between Raluana Point and Vulcan, are a network of tunnels and tracks connecting barges and buildings dating back to the war. In the main tunnel are five barges lined up end to end. Visitors are advised to take a torch. The subproject would rehabilitate the access road and improve project site management, including parking, simple hand-craft kiosks for local community to sell their products, public toilets and interpretation panels.

• **Rabaul Observatory site management improvement.** The observatory overlooking Simpson Harbour, Rabaul and the volcanoes is a popular tourist attraction, but parking and traffic congestion has become a major issue for buses transporting large numbers of cruise passengers.

• **Underground Hospital site management improvement.** This war heritage site is overgrown and in need of site management.

• **Omorong Recreational Park Facilities.** This public park area warrants a beautification investment.

31. **Subcomponent 2.2. Supporting partnerships for inclusive tourism destinations (US$3.00 million).** This subcomponent aims at improving the economic livelihood of selected communities which can create or expand a tourism product. It supports start-up or expansion of community-led enterprises that contribute to improved livelihood of the bottom forty percent through sustainable and inclusive tourism development.
32. The sub-component draws on the experience of a range of different Community Driven Development (CDD) projects, small grants, micro-finance and micro-entrepreneurship programs in PNG and other parts of the globe. The resultant design is a hybrid approach that encompasses CDD principles, the principles of sustainability and cultural heritage protection, and the entrepreneurship principles of competitiveness, market development and performance based disbursement. Activities supported under this sub-component will also be informed by the resource audit being conducted under the Provincial Tourism Strategies (subcomponent 1.1), and the complementary mapping of tangible and intangible cultural heritage in each province (subcomponent 1.2). Both activities will enable more targeted outreach and support to communities, which have already demonstrated some capacity to work collectively to develop innovative tourism and cultural heritage products. At the same time, a more general community outreach campaign will be undertaken to ensure that all eligible groups are adequately informed about the opportunities provided under the project.

33. Specifically, the subcomponent will provide Community Grants (CG) in support of a range of local initiatives selected on various principles such as sustainability, the promotion of cultural heritage, and a well-founded business case. Particular attention and support will be given to activities initiated by women and youth; at least 50 percent of community grants will be given to women led initiatives. CDD principles will be used to solicit demand from local communities and engage them through participatory tools to identify local priorities. Activities to be supported must meet a set of criteria that promote sustainability and cultural heritage in the local context and communities will be required to submit proposal through a competitive process, with criteria that are clearly articulated and adhered to by a Project Small Grant Committee (PSCG). The PSCG will be made up of representatives from TPA, the Provincial Government and the private sector.

To facilitate the submission of quality proposals from communities and to guide their market relevance, a package of advisory support services will be provided by a non-government service provider entity, such as an NGO or private firm, selected on a competitive basis. The package of support will include community outreach and education, community mobilization, business proposal development, costings, market assessments and links to market opportunities, implementation support, and monitoring and evaluation. The service provider (SP) is expected to work closely with the relevant provincial agencies, including the Provincial Tourism Office/Destination Management Office, and collaborate with the local and national Museums, Galleries or cultural institutes where appropriate. The SP will also be responsible to provide monitoring and progress information to the project PMU. Selection of successful applications for the community grants will be made by the PSCG.

34. Activity 1: Advisory Support Services

A non-government entity (NGO, firm, or selected individuals) will be competitively selected as Service Providers (SP) to provide a package of ongoing support for the community grants program. The package of support will include training and advisory services related to:

- Community outreach and awareness raising about the community grants program;
- Social mobilization, and support for the formation of community groups and associations, including support to improve the participation and inclusion of
traditionally marginalized groups in planning and decision making processes (including women, youth, and persons with disabilities);

- Business planning, project planning proposal development;
- Banking and accounting support;
- Sustainable tourism and maintaining, preserving and promoting cultural heritage training;
- Product development and quality control;
- Linkages to private sector tourist operators and related markets;
- Implementation support;
- Monitoring and Evaluation.

35. Through a single contract with the SP, the Project will be able to provide different types of support to be provided on a rolling basis throughout the project's lifecycle. Community outreach and awareness about the grants program will be undertaken intensively in the first year of the program, in conjunction with TPA and the provincial tourism bureau. It is expected that potential communities for this component will be identified during the resource audit being conducted under the Provincial Tourism Strategies, however a dedicated community engagement task will be undertaken for this activity to ensure a fair chance to all. Interested community groups will be invited to prepare expressions of interest to participate in the first phase of the program in which they will be provided with a range of start up support, including the development of business plans, project costing and proposals. The PSGC will vet and select the program participants at each stage of support. Community groups will compete for grants in three rounds throughout the project. Groups selected by the PSGC will sign an agreement with TPA and receive the financial support directly into community bank accounts (once these are set up and/or confirmed to be aligned with criteria elaborated on in the POM).

36. It is estimated that advisory support services in each province will cost about US$250,000. Multi-year funding will be possible where the service provider has demonstrated a high level of capacity and performance based on the contract criteria and deliverables in the first phased of the project. A performance review will be carried out by TPA/PMC after the first round of grants are disbursed.

37. **Activity 2: Community Grants**

Community grants (CG) are intended to support economic and sustainable livelihoods development in target communities and will be provided directly to community groups through community bank accounts.

38. Community groups can include formal or informal associations (such as groups of artisans or cultural groups), family groups, village associations, women’s groups, or any other local group that has come together for the purpose of developing a specific sustainable tourism product, and is able to open a Bank Account in line with the requirements set out in the OM. The group will need to demonstrate a commitment to work together for the purpose of the proposed sub-project through the submission of the proposal and identify a group coordinator, secretary and treasurer. Both existing groups and activities and start-ups are eligible for support. Startups will be subject to more intense monitoring, and will receive payments in smaller tranches over the project cycle.
39. Groups and their proposals will be screened and selected competitively for each phase of support under the program. Selection will be based on a set of sustainability principles, and positive list of types of support, and evidence of prior effort and/or in-kind contribution by the group.

40. Sustainability principles will include activities that:
   - Are community initiated, owned and supported;
   - Target the bottom 40 percent;
   - Support the preservation and protection of unique natural and cultural environments, resources or practices;
   - Do no harm to the natural environment, local cultural practices or to local community relationships;
   - Are financially sustainable.

41. As such, CG’s will support a range of activities including:
   - Micro-infrastructure, where these investments will contribute to a specific sustainable tourism or cultural heritage product (such as erecting or rehabilitating community owned cultural assets or infrastructure, establishing or extending a local guest house, local amenities that enhance the attractiveness/appeal of a natural or cultural site, such as sign boards, local market stalls, cultural performance areas, providing toilets on site etc.)
   - Specific assets, materials or resources to enhance the quality and development of tourism, arts and cultural products (e.g., quality art supplies, transport for specific nature or culture based tours etc.);
   - Achieving product quality standards / accreditation /certification processes;
   - Marketing, design support and promotion materials and activities (such as certification processes, various forms of advertising etc.);
   - Training (e.g. governance, business management, customer service).

42. It is envisaged to provide a minimum of 125 grants in amounts ranging between US$5,000-20,000. Finance can be provided in cash, in minimum of two tranches paid on a performance basis. The advisory support service organization will monitor the implementation of the various activities and verify performance. Three rounds of grants will be implemented during the life of the project, starting with a smaller number of grants in the first year of the program, leading to two larger rounds in the second and third years of the project.

43. The grants will be implemented in accordance with the definitions and procedures set out in the Project’s Operations Manual (POM), and will include the following processes supported by the SP, as well as TPA, the Provincial Tourism Bureau/Destination Management Organizations, Cultural Centers and Arts Galleries, supported under component 2.1. The following steps will be followed and elaborated on in the POM:
   - Awareness Raising, ‘Demand’ Mapping and Community identification (SP);
   - Selection of groups for phase 1 SP support;
   - Participatory planning, prioritization and development of project plans (SP with community groups);
• Selection of ‘winning’ projects (by PSGC);
• Implementation and monitoring of grant activities (SP, community groups).

44. The TPA supported by the PMC will be responsible for the overall functioning of the small grants program and a grants officer will be identified within the PMC to be the nodal officer for the program.

45. **Component 3: Project Management (US$3.00 million):** This component will support the Project implementation, including procurement, financial management, safeguards compliance, preparation of feasibility studies and details design, and construction supervision. In doing so, this component will support the establishment of a project implementing team in TPA, headed by a project manager, together with two provincial coordinators. As this will be the first World Bank project to be implemented by TPA in multiple locations that do not have TPA presence, a project management company will be hired to support implementation, safeguard compliance and timely disbursement. The component will also finance the operating cost of the Project implementing and coordinating entities at the national and provincial levels.
Annex 3: Implementation Arrangements

Tourism Sector Development Project

Project Institutional and Implementation Arrangements

1. The Ministry of Tourism, Arts and Culture (MTAC) will be the main government counterpart responsible for the proposed Project. The Tourism Promotion Agency (TPA) will be the Project Implementing Entity (PIE), responsible for all aspects of Project implementation, including fiduciary and safeguards responsibilities, as well as monitoring and evaluation and reporting results. The TPA is a Statutory Body established under Section 8 of the Public Financial Management Act (PFMA) and governed by its own act, the Tourism Promotion Authority Act 1993, reporting to the Minister for Tourism Arts and Culture.

2. Given the complexity of tourism development projects and the overall challenging project implementation realities in PNG, TPA will hire a Project Management Company (PMC) to provide technical, fiduciary, safeguards and monitoring and evaluation support during project implementation. Until the PMC is contracted, TPA will be supported by a small group of fiduciary and safeguards consultants.

3. TPA will support national level initiatives and work in collaboration with local and provincial stakeholders on key infrastructure and capacity building activities. TPA will be supported by regional coordinators in each province, who will coordinate the dialogue with different stakeholders, especially as TPA does not yet have a permanent presence in the provinces. TPA will sign a Memorandum of Understanding (MOU) with each provincial government, stipulating roles and responsibilities at the Project level.

4. At the subproject level, and before implementing any subproject, TPA will sign a tripartite Investment Subproject Agreement (ISA) with the provincial government and respective local-level government (or other agency which own the assets, e.g., national museum or WaterPNG).

5. The ISA will define roles and responsibilities during subproject implementation, as well as the hand-over process of assets after being rehabilitated/constructed. The Project Operations Manual (POM) stipulates all steps of subproject identification, screening, preparation, implementation and hand-over process, and provides criteria and templates, including for the ISA. See chart below, illustrating implementation arrangement.

6. A Working Group, composed by the technical representatives of the two provinces benefitting from the Project, various ministries and agencies involved as well as the Project Implementing Entity, will be established. Its function is to ensure effective inter-agency communication, with the responsibility of facilitating Project implementation and removing any barrier to smooth implementation.
Financial Management, Disbursements and Procurement

Financial Management

7. **Budgeting.** A budget for the whole project will be broken down by year, and appropriate levels of detail (e.g. component or category, whichever is deemed most relevant and useful).

8. **Counterpart Funding.** As the Project is funding 100 percent of eligible expenditure and inclusive of tax, no counterpart funding is envisaged.

9. **Funds Flow.** Funds will flow from the World Bank to Government of PNG, into a Designated Account (DA) from which payments can be made (refer Disbursements section below for more details on the DA).

10. **Accounting and Maintenance of Accounting Records.** TPA uses the Syspro accounting system and operates on an accrual basis of accounting. Accounting records are maintained by TPA and are to be made available to both auditors and the World Bank, as required.

11. **Internal Controls; including Internal Audit.** TPA has an FM Policies and Procedures Manual. A hard copy was available for review. A soft/hard copy was requested, but not yet made available to the World Bank. Currently TPA outsource their internal audit (current contract is with Raj and Associates). A copy of internal audit reports has been requested, but not yet made available to the World Bank.
12. **Periodic Financial Reporting.** Unaudited interim financial reports (IFRs) will be prepared on a quarterly basis. The financial reports will include an analysis of actual expenditure for the current period, year to date and for the cumulative to date, plus outstanding commitments, compared against total project budget. The format will be developed and agreed by the implementing agency and the World Bank prior to due date for the submission of the first IFRs. The IFRs will be forwarded to the World Bank within 45 days of the end of each calendar quarter.

13. **External Audit.** An annual audit of the Project funds will be required. The Office of the Auditor-General of PNG is mandated to audit all Government funds. The Auditor General requires annual financial statements to be prepared in accordance with IPSAS accounting standards. The audited financial statements, audit report and management letter must be received by the World Bank within six months of the end of the fiscal year, and shall be made publicly available by the Recipient in a manner acceptable to the Bank as per the General Conditions of IDA Credits and Grants. The last audit was for 2014, and was unqualified. Copies of the last audited financial statements were requested, but not yet made available to the World Bank.

14. **FM Supervision Plan.** Below is the plan for supervision of the FM aspects of the Project:

<table>
<thead>
<tr>
<th>FM activity</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desk reviews</td>
<td></td>
</tr>
<tr>
<td>Unaudited interim financial reports (IFRs) - review</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Annual audit report - review</td>
<td>Annually</td>
</tr>
<tr>
<td><strong>On site visits</strong></td>
<td></td>
</tr>
<tr>
<td>Formal supervision</td>
<td>Semester initially, then Annually based on risk and performance ratings.</td>
</tr>
<tr>
<td>Monitoring of actions taken on issues highlighted in review of the IFRs and audit reports, auditors’ management letters, and other applicable reviews</td>
<td>As needed.</td>
</tr>
<tr>
<td>Transaction reviews (if needed)</td>
<td>On an as needed basis, and in the case of any issue arising.</td>
</tr>
</tbody>
</table>

15. **Financial Management Action Plan.** A summary of the Financial Management Action Plan is shown below:

<table>
<thead>
<tr>
<th>No.</th>
<th>Action</th>
<th>Date by which action required</th>
<th>Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Prepare and agree format of unaudited IFRs that will be used for semester reporting.</td>
<td>Prior to the due date for the submission of the first IFR.</td>
<td>TPA &amp; World Bank FM Specialist</td>
</tr>
</tbody>
</table>
Disbursement

16. **Disbursement Methods and supporting Documentation Arrangements.** The Project would use four disbursement methods: (a) advances; (b) direct payment; (c) reimbursement, and (d) special commitments. Direct payment would only be used for large payments or when payments are in currencies that the borrower may have difficulty obtaining. Reimbursement would only be used if the Government of PNG funds were used for project expenses rather than expenditure being through the Designated Account. Special commitments may be needed if goods are purchased from overseas. Disbursements will be against List of Payments and Statements of Expenditure. Required supporting documentation for disbursements will be outlined in the Disbursement Letter.

17. **Designated Account.** The Project would need a Designated Account (DA) for Advances. The currency of the DA would be PNG Kina. A segregated DA would be required. TPA currently bank with ANZ Bank. At the time of Board approval, the Recipient currently has a lapsed loan. No advances will be made to the Designated Account for the project until the lapsed loan is resolved.

18. The IDA credit would disburse against eligible expenditures as in the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, non-consulting services, Training, Incremental Operating Costs and consultants’ services for the Project (other than Part 2.2 (a) thereof)</td>
<td>12,350,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Community Grants under Part 2.2 (a) of the Project</td>
<td>1,850,000</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td>(3) Refund of Preparation Advance</td>
<td>600,000</td>
<td>Amount payable pursuant to Section 2.07 of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>14,800,000</td>
<td></td>
</tr>
</tbody>
</table>

19. The sources of funding are as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (US$ million)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank – IDA Grant</td>
<td>20.0</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>20.0</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Note:** A Project Preparation Advance (PPA) of US$820,000 has been requested.
Disbursement Conditions. No withdrawal shall be made for any payments under Category (2) unless the Community Grants Manual referred to in Section I.D.1(c) of Schedule to the Project Agreement has been duly adopted by the Project Implementing Entity, in form and substance satisfactory to the Association. (Financing Agreement, Schedule 2, Section IV., B.1.b.).

Retroactive Financing. No retroactive financing is envisaged.

Procurement.

20. **Procurement Arrangements.** Procurement for the proposed project will be carried out in accordance with the World Bank’s “Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers,” dated January 2011 and revised July 2014 (Procurement Guidelines); and “Guidelines: Selection and Employment of Consultants under IBRD and IDA Credits & Grants by World Bank Borrowers,” dated January 2011 and revised July 2014 (Consultant Guidelines); and the provisions stipulated in the Financing Agreement. The description of various items under different expenditure categories is presented below. For each contract to be financed by the Credit, the procurement or selection methods, estimated costs, prior review requirements, and time frame will be agreed between the Recipient and the Bank project team and detailed in the Procurement Plan.

21. **Procurement of Works.** Procurement of works will be carried out in accordance with procedures for International Competitive Bidding (ICB), National Competitive Bidding (NCB), or Shopping as detailed in the applicable Procurement Guidelines and in line with agreed thresholds. At this point no specific works have been identified.

22. **Community Participation in Procurement:** For the subprojects supported with Community Service Delivery Grants, “Community Participation in Procurement” would be used in accordance with the provisions of paragraph 3.19 of the Procurement Guidelines. LLG administrations and LLG committees will be fully involved in the sub-project development, selection, implementation and monitoring processes. Goods and materials can be procured in bulk on behalf of the communities through normal shopping procedures by the PMU and provided to the communities. To ensure that PMU is held accountable in such circumstances, a community delivery confirmation mechanism will be developed and included in the POM.

23. **Procurement of Goods and Non-consultant Services.** Procurement of Goods and non-consulting services will be carried out in accordance with procedures for International Competitive Bidding (ICB), National Competitive Bidding (NCB), or Shopping as detailed in the applicable Procurement Guidelines and in line with agreed thresholds. At this point the goods to be procured are limited to those required to establish the PMU (computers, printers and office furniture).

24. **Selection of Consultants (Firms and Individuals).** Procurement of consulting services will be carried out in accordance with the applicable Consultant Guidelines and in line with agreed thresholds. At this point the procurement of consulting services relates to the hiring of individuals and firms to assist the TPA to prepare the project to a state of implementation readiness (tourism strategy, urban vision, TOR preparation, safeguards, fiduciary TA). These procurements will be undertaken using a Project Preparation Advance (PPA).
25. **Procurement Risk Assessment**: An assessment of the capacity of TPA to implement procurement actions for the Project was carried out and the risk rating was “substantial”. The rating was established because the TPA has no prior experience implementing a World Bank financed project; the TPA has no prior experience transacting the types of procurement activities detailed under the project; and the TPA currently have no dedicated procurement resources. The procurement-related risks identified are as follows:

- local market constraints and high logistics costs;
- TPA has never implemented projects financed by the World Bank;
- delay in implementation due to improper planning;
- limited technical capacity and no dedicated project procurement resources; and
- incomplete procurement record-keeping.

The following mitigation measures are proposed:

- The Tourism Promotion Authority (TPA) will hire a number of individual consultants to assist with preparation of the project (using a Project Preparation Advance-PPA). Once the project is effective the TPA will hire a firm as a Project Management Company (PMC) to assist them with the management and implementation of the project. The consultants hired to assist with preparation and implementation will be co-located with the TPA at their offices in downtown Port Moresby. Under this arrangement the TPA would be responsible for undertaking the procurement of the sub-projects in accordance with the applicable Procurement and Consultant Guidelines during preparation and during implementation the PMC will assume this responsibility.

- The PMC will review the procurement procedures developed in the OM for Community Procurement under TSDP and the local market conditions, and will include other appropriate options for community’s consideration, e.g., goods and materials may be procured in bulk through normal shopping procedures by the PMC and would be provided to the communities.

- A mechanism for community confirmation of shipment delivery and receipt will be incorporated into the POM to ensure that bulk procurement by PMC is confirmed by communities.

- The TPA would be able to apply the Regional Guidance including simplified template bidding and other documents Making Procurement and Financial Management Work for Fragile and Small States in the Pacific, issued on January 2013 (Modified July 2014) during preparation and the PMC during implementation.

- The TPA with assistance of the PMC should develop checklists to improve the consistency of project procurement record keeping.

- The TPA with assistance of the PMC will develop a contract management system to ensure that all contracts under the project are effectively and efficiently managed. All procurement under the project will also be managed through the World Bank’s Systematic Tracking of Exchanges in Procurement (STEP) system.
Procurement Threshold and Prior Review Thresholds. Procurement and prior review are shown below:

### Table 1. Thresholds for Procurement and Prior Review

<table>
<thead>
<tr>
<th>Procurement Risk Rating: High</th>
<th>Procurement Methods</th>
<th>Procurement Prior Review Thresholds</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>Goods, information technology and non-consulting services:</td>
<td>&gt;US$500,000</td>
<td></td>
</tr>
<tr>
<td>II.</td>
<td>Works (including turnkey, supply &amp; installation of plant and equipment, and PPP):</td>
<td>&gt;US$1,000,000</td>
<td></td>
</tr>
<tr>
<td>III. Community Participation in Procurement:</td>
<td>Community participation in procurement would be used for Community Service Delivery Grants.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV. Selection of Consultants:</td>
<td>Selection Methods</td>
<td>Procurement Prior Review Thresholds</td>
<td>Comments</td>
</tr>
<tr>
<td>Firms</td>
<td></td>
<td>&gt;$500,000</td>
<td></td>
</tr>
<tr>
<td>Individual Consultants</td>
<td></td>
<td>&gt;$200,000</td>
<td></td>
</tr>
</tbody>
</table>

26. **Frequency of Procurement Supervision.** In addition to the prior review to be carried out by the Bank, during supervision missions (once a year), at least one out of five procurement packages not subject to Bank prior review will be examined ex-post.

27. **Procurement Plan.** For subprojects under Community Service Delivery Grant, it is unlikely that the communities will be able to prepare an annual procurement plan in advance. The detailed procurement plan would be prepared by communities only after specific subprojects are selected. In such circumstances, the guidance for procurement planning has been provided in the POM. For the other project procurement activities, a Procurement Plan has been prepared, dated March 13, 2017. The Plan will also be available in the Project’s database and in the Bank’s external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs. A summary table of procurement plans is presented in the tables below.

28. **Procurement Assignments under the PPA in 2017.** The first 6 months of procurement will be financed by PPA.
### Procurement of Goods

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ref. No.</td>
<td>Activity Description</td>
<td>Estimate Cost (USD)</td>
<td>Procurement Method</td>
<td>Prequalification (yes/no)</td>
<td>Domestic Preference (yes/no)</td>
<td>Review by Bank (prior/post)</td>
<td>Expected Contract Signing Date</td>
</tr>
<tr>
<td>PPA GD.01</td>
<td>Office Equipment</td>
<td>5,000</td>
<td>Shopping</td>
<td>No</td>
<td>No</td>
<td>Post</td>
<td>30 Apr 17</td>
</tr>
<tr>
<td>PPA GD.02</td>
<td>Office Furniture</td>
<td>5,000</td>
<td>Shopping</td>
<td>No</td>
<td>No</td>
<td>Post</td>
<td>30 Apr 17</td>
</tr>
<tr>
<td>GD.03</td>
<td>Vehicles (2)</td>
<td>150’000</td>
<td>Shopping</td>
<td>No</td>
<td>No</td>
<td>Post</td>
<td>Sept -17</td>
</tr>
</tbody>
</table>

### Consultancy Assignments with Selection Methods and Time Schedule

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ref. No.</td>
<td>Description of Assignment</td>
<td>Estimated Cost USD</td>
<td>Selection Method</td>
<td>Review by Bank (prior/post)</td>
<td>Expected Contract Signing Date</td>
<td>Expected Contract End Date</td>
</tr>
<tr>
<td>PPA CS.01</td>
<td>National and MB and ENB Provincial Tourism Master Plans 2007-2017 Review (Phase 1) (Phase 2, $400k, to prepare National and MB and ENB Tourism Strategies will be subject to satisfactory performance under Phase 1 and Project effectiveness)</td>
<td>100,000</td>
<td>CQS</td>
<td>Post</td>
<td>17-Apr-17</td>
<td>15-Nov-17</td>
</tr>
<tr>
<td>PPA CS.02</td>
<td>Preparation of Alotau’s City Development Vision</td>
<td>100,000</td>
<td>CQS</td>
<td>Post</td>
<td>17-Apr-17</td>
<td>15-Nov-17</td>
</tr>
<tr>
<td>PPA CS.03</td>
<td>Engineering Designs</td>
<td>300,000</td>
<td>CQS</td>
<td>Post</td>
<td>17-Apr-17</td>
<td>15-Nov-17</td>
</tr>
<tr>
<td>CS.04</td>
<td>Setting up of Tourism Destination Management Offices (DMOs)</td>
<td>250,000</td>
<td>CQS</td>
<td>Post</td>
<td>8-Dec–17</td>
<td>30-Jul–18</td>
</tr>
<tr>
<td>CS.05</td>
<td>Project Management Company</td>
<td>1,200,000</td>
<td>QCBS</td>
<td>Prior</td>
<td>30-Aug-17</td>
<td>31-Jul-20</td>
</tr>
</tbody>
</table>
29. **Safeguards.** TPA is responsible for the implementation of the safeguards frameworks and compliance with World Bank safeguards policies, as per the legal agreement between the World Bank and the GoPNG. This includes responsibility for managing stakeholder engagement for the TSDP, the GRM, monitoring and reporting.

30. For Component 1, the TPA will recruit and supervise the SESCHA consultants and ensure the integration of the SESCHA with the technical advisory outputs. For Component 2, the TPA will be supported by the PMC, which will provide safeguards specialists to ensure safeguards compliance for subprojects as follows: receive and screen subproject proposals from subproject proponents; determine the safeguards instruments required for subprojects; prepare TOR, recruit specialist consultants to prepare safeguards instruments; review consultants outputs, prepare safeguards clauses for contractors; supervise the contractors implementation of the ESMP; and provide regular reporting to TPA.

31. For each subproject under Component 2 the subproject proponent is responsible for project design, and the TPA is responsible for the preparation and implementation of the safeguards instruments. TPA will support the subproject proponents to undertake consultation for subprojects. The PMC will provide expertise and support engagement by developing engagement plans and materials for consultation and for keeping records. The subproject proponent will be responsible for negotiating land access and securing land for infrastructure/assets/facilities or tourism ventures.

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| PPA CS.06 | Individual Consultants
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement advisor (international hire periodic inputs 7 months)</td>
<td>70,000</td>
<td>IC</td>
<td>Post</td>
<td>15-Apr-17</td>
<td>14-Nov-17</td>
</tr>
<tr>
<td>Financial management specialist (local hire full time 7 months)</td>
<td>55,000</td>
<td>IC</td>
<td>Post</td>
<td>15-Apr-17</td>
<td>14-Nov-17</td>
</tr>
<tr>
<td>Project advisor/coordinator (local hire full time 7 months)</td>
<td>55,000</td>
<td>IC</td>
<td>Post</td>
<td>15-Apr-17</td>
<td>14-Nov-17</td>
</tr>
<tr>
<td>Community &amp; small grants development (local hire full time)</td>
<td>50,000</td>
<td>IC</td>
<td>Post</td>
<td>15-Apr-17</td>
<td>14-Nov-17</td>
</tr>
<tr>
<td>Safeguard Consultant (7 months)</td>
<td>40,000</td>
<td>IC</td>
<td>Post</td>
<td>15-Apr-17</td>
<td>14-Nov-17</td>
</tr>
<tr>
<td>Preparation of Sustainable Site Management Plans (multiple)</td>
<td>500,000</td>
<td>IC</td>
<td>Prior (first 2)</td>
<td>26-Sep-17</td>
<td>30-Aug-18</td>
</tr>
<tr>
<td>Preparation SESCHA</td>
<td>150,000</td>
<td>IC</td>
<td>Post</td>
<td>26-Sep-17</td>
<td>30-Jun-18</td>
</tr>
<tr>
<td>Mapping of tangible and intangible cultural heritage sites</td>
<td>150,000</td>
<td>IC</td>
<td>Post</td>
<td>26-Sep-17</td>
<td>30-Jul-18</td>
</tr>
</tbody>
</table>
The TPA is responsible for ensuring that the RAP/ARAP are implemented correctly, and will support the subproject proponent to carry out negotiations and agreements and the payments of entitlements and other compensation or benefits, and will be responsible for grievances and recruiting the independent monitoring team.

**Monitoring & Evaluation**

32. The TPA will be responsible for monitoring and evaluating the outcomes of the Project against agreed indicators as set out in the Results Framework. The TPA capacity in data collection and analysis will be strengthened during Project implementation through engagement of consulting firms.

33. The M&E will assess the success of implementation of the Project and beneficiary (resident and tourists) access to Project resources and infrastructure through indicators defined for the Project. In addition, the M&E will be designed to monitor socio-economic outcomes at both individual and community-level, including job creation and increased spending.

34. The M&E consulting firm will compile the baseline data already available in the SARs and economic analysis report, draw on findings from the IFC-funded International Visitor Survey to be commence in late 2016, and collect additional data from the government agencies, as well as through field visits and surveys. The Project’s Intermediate Indicators, as defined in the Results Framework, will also be monitored on an annual basis.

**Role of Partners and Synergy**

35. The Project will coordinate with several parallel investments financed by the World Bank, development partners and the Government of PNG in infrastructure, tourism sector development, private sector development and community development. Following are examples of programs identified to date that can be leveraged by this project.

36. The ADB-managed and DFAT-supported Pacific Business Investment Facility (BIF) provides business advisory services to SMEs with <5 employees that are seeking finance of USD 100,000 to USD 1 million, (typically USD 300,000). Specifically, this service supports business owners to develop business and financing plans enabling them to seek finance from commercial banks (which reportedly are willing to lend, but are not receiving adequate proposals). Operating since 2015, the Pacific BIF targets tourism sector clients, and is actively seeking clients in PNG. This facility will meet certain needs emerging during this Project, for business development support by existing SMEs intending to meet demand for improved tourism products/services. (www.bifadb.org).

37. DFAT’s Market Development Facility (MDF) provides business advisory services and grant (part matching at 2:1 ratio) to private sector partners with a project that provides income and employment opportunities for rural and urban poor. Operating since early 2016, the funding amount is typically up to USD 200,000, but “can go over”. MDF serves smaller size businesses than BIF, but MDF “takes on more risk”. The programs work in collaboration. MDF has a focus on tourism and hospitality, and has supported one tourism project so far, villagehuts.com (a
website to promote village stays), which is likely to be an important partner for this Project. MDF will meet certain needs emerging during this Project, for business development support by existing SMEs intending to meet demand for improved tourism products/services (http://marketdevelopmentfacility.org/content/partnerships/papua-new-guinea/).

38. The World Bank Small and Medium Enterprise Access to Finance Project (2011-2024) has the objective of facilitating access to sustainable credit for SMEs, thereby contributing to incremental growth of SME employment and income. Under this project, a risk sharing facility has been established with Bank South Pacific (BSP) to support SME loans, and other commercial banks have been invited to join this initiative. Through financial sector partners, the program will also offer capacity building for SMEs including: (a) SME management and financial skills training; (b) focused SME mentoring and coaching; (c) targeted training for women entrepreneurs; and (d) support for provincial government commerce staff. This program will be leveraged where the need or opportunity for private sector opportunities are identified in the course of this Project.

39. The Small Business Development Corporation (SBDC) is government-funded agency set up to provide business training to micro and small businesses; however, they do not have an active website and industry consultations suggest they do not have the resources to adequately provide such services. They launched a ‘Small Business Credit Guarantee Scheme’ in partnership with National Development Bank to enable access to finance for small and medium businesses, including tourism services. Although there are anecdotal reports that this scheme has not benefited tourism MSMEs as hoped, the potential to leverage this for MSME support will be investigated throughout the project. (https://ndbpng.files.wordpress.com/2012/02/sbdc.pdf).

40. The Milne Bay Provincial Administration reportedly has three Business Development Officers whose role is to provide advisory services to small businesses in business planning and developing bankable project proposals. However, they also reportedly do not have the resources (e.g. vehicles) to perform their role, so the role in meeting local business support needs will be assessed.

41. The National Development Bank / Peoples Micro Bank provides loans of K1000 – K50,000 for ‘small to medium tourism businesses’. Since 2009, in partnership with the TPA, they have been offering a ‘Tourism Credit Scheme’ through funding from the Government as well as the Department of National Planning, which is associated with the above mentioned ‘Small Business Credit Guarantee Scheme’. This offered two types of guarantee funding: (i) loans ranging from K5,000 - K20,000 under Small Guarantee and (ii) loans ranging from K21,000.00 - K60,000.00 under medium/large Guarantee. As noted above, there are anecdotal reports that this scheme is not meeting the needs of tourism MSMEs, so further information will be collected during the tourism situational analysis under Subcomponent 1.1 to determine how this, and associated financial literacy programs (in partnership with ADB), and other business support initiatives can be leveraged for small tourism enterprises intending to meet demand for improved tourism products/services.
Annex 4: Implementation Support Plan
Tourism Sector Development Project

Strategy and Approach for Implementation Support

1. The implementation support strategy was developed considering the risks and mitigation measures identified in the Results Framework and Monitoring and targets provision of flexible and efficient implementation support to the client.

2. **Procurement:** The procurement related implementation support will include: (a) timely advice from the designated procurement specialist (DPS) on various procurement related issues and guidance on the Bank’s Procurement and Consultant Guidelines; (b) monitoring of procurement progress against the procurement plan; and (c) post-review of contracts.

3. **Financial Management:** As part of its project implementation support and supervision missions, the Bank will conduct risk-based financial management implementation support and supervisions within a year from the Project effectiveness, and then at appropriate intervals. During the Project implementation, the Bank will supervise the Project’s financial management arrangements in the following ways: (a) review the Project’s semi-annual IFRs as well as the Project’s annual audited financial statements and auditor’s management letters and remedial actions recommended in the auditor’s management letters; and (b) during the Bank’s on-site missions, review the following key areas (i) Project accounting and internal control systems; (ii) budgeting and financial planning arrangements; (iii) disbursement arrangements and financial flows, including counterpart funds, as applicable; and (iv) any incidences of corrupt practices involving Project resources. As required, a Bank-accredited Financial Management Specialist will participate in the implementation support and supervision process.

4. **Environmental and social safeguards:** The Bank’s environmental and social specialists will provide regular support in strengthening the capacity of TPA in tackling safeguards related issues. Additionally, the Bank’s safeguards specialists will closely monitor implementation of the agreed ESMF and will provide guidance to the client to address the issues that may arise. The Environment and Social Safeguard specialists are based in Sydney and can provide daily support to the client.

5. **Operation support:** The Bank Task Team Leader is based in the Singapore Country Office and co-Team Leader, is based in Washington DC. They have had ongoing communication with the client during the identification and preparation of the Project. Supported by local and international short-term consultants, they will continue to provide regular implementation support during implementation, including monthly visits to all Project sites especially during the first year of Project implementation. They will keep the Bank team appraised and provide implementation support and guidance to TPA on various aspects of interventions as needed.
Implementation Support Plan

6. The Project team will provide timely and effective implementation support through daily supervision since the Task Team Leaders and several team members are based in the region and local offices. The task team will provide the following detailed inputs to support project implementation:

- **Technical inputs**: Engineers, Tourism and Cultural Heritage Consultants will carry out regular site visits and review of documentation to ensure compliance to plans, quality, safeguards and timetable.

- **Fiduciary requirements and inputs**: The Procurement and Financial Management Specialists are based in Sydney. The Operations Officer is based in Port Moresby. They will provide timely implementation support. The financial management specialist will conduct risk-based FM missions within a year after the Project effectiveness, and then at appropriate intervals, while the procurement supervision will be carried out as per Bank’s procurement rules and guidelines.

- **Safeguards**: The Environmental and Social Development Specialists, are based in Sydney. They will closely supervise implementation of the ESMF and RPF of the Project. The environmental and social specialists will conduct field visits on semi-annual basis to monitor implementation of safeguards policies.
Annex 5: Economic and Financial Analysis  
Tourism Sector Development Project

1. Introduction

Overview. The Project (TSDP) intends to finance investments in three components. Component 1 (mostly technical assistance activities) would be undertaken at the national and provincial level, whereas investments in Components 2 and 3 would be concentrated in two target provinces: Milne Bay and East New Britain (ENB). This annex presents an analysis of the economic impacts of these two components. Component 1 will mostly finance institutional strengthening of the tourism sector. Because the economic benefits of such investments are difficult to quantify, they were excluded from the economic analysis.

Methodology. As described by Lin and De Guzman, there are two commonly used approaches to estimating the economic benefits from investments in the tourism sector: (i) economic impact analysis based on multipliers, and (ii) cost–benefit analysis based on evaluation of nonmarket goods. The economic analysis of TSDP uses the multiplier approach, primarily because a traditional cost-benefit analysis is not suitable for justifying investments in tourism by a developing country, as most welfare changes will accrue to visitors from abroad instead of to the population of PNG, which the project intends to support. In addition, an economic impact analysis is a more common approach to analyzing economic benefits from tourism than a traditional cost-benefit analysis. The economic analysis presented here can be summarized as follows (see Figure 1 overleaf for an overview):

- **Step 1: Estimate direct economic impacts.** These are the impacts on the provincial economies of Milne Bay and ENB arising from an increase in spending by foreign tourists that is attributable to the project. Project-induced increases are estimated by comparing spending by foreign tourists in a “with project” and “without project” scenario.

- **Step 2: Estimate other economic impacts.** Once the direct economic impact has been assessed, the analysis will use multiplier to estimate indirect impacts (secondary impacts caused by changing input needs of directly affected industries) and induced impacts (changes in household spending due to the additional employment generated by direct and indirect effects).

- **Step 3: Compare economic impacts with economic costs.** The economic impacts resulting from Step 1 and Step 2 are compared with the economic costs of Components 2 and 3, to facilitate an informed decision about the economic feasibility of the proposed investments.

2. Direct Economic Impacts

Current level of spending by foreign tourists in target provinces. At present, there are no reliable data available on spending by foreign tourists who visit Milne Bay or East New Britain (ENB). TPA and the World Travel and Tourism Council (WTTC) regularly publish estimates on

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8 Tun Lin and Franklin D. De Guzman. *Tourism for Pro-Poor and Sustainable Growth: Economic Analysis of Tourism Projects.* (ADB, January 2007).

9 Even though domestic tourism is substantial, TSDP aims at increasing foreign tourism and it appears unlikely that project-financed investments will increase domestic tourism, which is largely driven by festivals and family visits that would also occur in the absence of the project.
spending by foreign visitors to PNG, but these estimates cover all types of spending (including spending on business trips and family visits) and are only available for the nation as whole, not by province. For this reason, separate estimates were prepared for both provinces based on a review of secondary data, the most of important of which are: (i) a comprehensive exit survey of approximately 2,500 foreign visitors who departed from PNG in 2015 through Jackson’s International Airport, the national airport that accounts for over 90% of international arrivals by air, and (ii) an assessment of the economic impacts of the cruise ship industry in PNG and the Solomon Islands that was co-financed by IFC. The TPA survey was used to estimate spending by foreign tourists who arrive in Milne Bay or ENB by air from Port Moresby (there are currently no international flights to Alotau and the bi-weekly international flight from Cairns to Rabaul mainly carries passengers who visit ENB for reasons other than holiday-making). The IFC-supported study, supplemented by information from the Milne Bay and ENB Tourism Bureaus, was used to estimate spending by foreign tourists who arrive by sea, which is the only other means to access the provinces. (Neither Alotau nor Rabaul/Kokopo is accessible by road from the mainland of PNG.) For both markets—airline passengers and tourism ship passengers—foreign tourist spending in Milne Bay and ENB was estimated for 2015, based on separate estimates for: (i) foreign tourist arrivals, (ii) average foreign tourist spending per day, and (iii) average number of days spent in the province.

Figure 1: Overview of Methodology for Economic Analysis of TSDP


Assessment of the Economic Impact of Cruise Tourism in Papua New Guinea & Solomon Islands. AusAid, Carnival Australia and IFC (June 2016).
Current level of spending of foreign tourists arriving by air.

- **Foreign tourist arrivals by air.** According to TPA estimates, in 2015 about 8,200 foreign visitors arrived in Gurney Airport (Alotau) and approximately 9,800 in Tokua Airport (Rabaul/Kokopo). A detailed analysis of the 2015 exit survey reveals that 275 of the 2,498 foreign visitors who were interviewed (or 11.0 percent of the total) visited either Milne Bay or ENB. Of the foreign visitors arriving in Milne Bay by air, 57 percent indicated “holiday” as their main purpose for visiting the province; for ENB, the percentage was 52 percent. Based on these shares, the number of foreign tourist arrivals by air in Alotau and Rabaul/Kokopo in 2015 was estimated at 4,700 and 5,200, respectively.

- **Average foreign tourist spending per day (arriving by air).** In 2015, foreign tourists visiting one of the target provinces by air spent very substantial amounts on their holidays. According to the 2015 exit survey, the average amount per trip was over US$13,500 per person, of which about 40 percent of which was spent on accommodation, about one third on international and domestic flights, and the remainder on meals, drinks, shopping, tours and land transport. Spending on flights was ignored, because benefits to the provincial economy are negligible. Spending on other items was about US$540 per foreign tourist per day in both provinces. In Milne Bay, average spending on accommodation was somewhat lower than in ENB, but spending on tours and attractions higher.

- **Average number of days spent (arriving by air).** In 2015, foreign tourists who visited Milne Bay or ENB by air spent on average about 18 days in PNG. This does not mean that they spent all of these days in the province. According to TPA’s 2015 exit survey, more than half of the foreign tourists who visited either Milne Bay or ENB also visited another province. Of these, the adjacent provinces of Oro, New Ireland and West New Britain were the most popular. (Some foreign tourists visited both Milne Bay and ENB). Because the exit survey did not ask interviewees to indicate the number of days the spent in the various provinces, it was assumed that each foreign tourist spent the same number of days in each province that was visited. Based on this assumption, the average number of days spent by foreign tourists arriving by air in Alotau and Rabaul/Kokopo was estimated at 11.3 and 10.4, respectively.

Based on the above assumptions total spending of foreign tourists arriving by air in Milne Bay and ENB was estimated at approximately US$58 million, which was almost equally divided between the two provinces (Table 1). Total spending was slightly higher in ENB, mainly because the number of arrivals by air was higher than in Milne Bay. This advantage was offset by lower average time spent in the province.

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11 Other than the National Capital District. This district was ignored when estimating the average number of provinces visited by foreign tourists, as most tourists do not intend to visit the capital but are often required to stay one night in transit because of relatively poor connections between international and domestic flights.
Table 1: Total Spending of Foreign Tourists Arriving by Air in Milne Bay and ENB, 2015

<table>
<thead>
<tr>
<th>Province</th>
<th>Arrivals by Air</th>
<th>Average Spending (US$/day)</th>
<th>Days Spent in Province</th>
<th>Total Spending (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milne Bay</td>
<td>4,700</td>
<td>290 115 132 537 11.3 28.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENB</td>
<td>5,200</td>
<td>340 62 136 538 10.4 29.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9,900</td>
<td>317 85 136 538 10.8 57.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: World Bank estimates based on TPA exit survey of 2015

Current level of spending of foreign tourists arriving by ship.

- **Foreign tourist arrivals by ship.** According to the Tourism Bureau of ENB, 15 foreign cruise ships arrived in the port of the Rabaul in 2015. The combined capacity of the ships was about 19,700 passengers. Eleven of the 15 ships had a capacity of at least 1,000 passengers, and these mega-ships accounted for over 98% of the total capacity. Large cruise ships also dominate foreign tourist arrivals by ship in Alotau. The Tourism Bureau of Milne Bay estimates that 15 large cruise ships visited the port in 2015; assuming the same average capacity of the mega-ships that visited Rabaul (1,800 passengers), the total number of foreign tourist arrivals in Alotau was estimated at (15 x 1,800 =) 27,000. Cruise ships departing from Rabaul do not visit destinations elsewhere in ENB. In contrast, cruise ships departing from Alotau usually (though not always) visit other locations in Milne Bay Province. These are the islands of Doini (11 calls in 2015), Kativa (8) and Kiriwani (10). Arrivals in these three locations combined were estimated at (11+8+10 x 1,800 =) 52,200.

- **Average foreign tourist spending per day (arriving by ship).** In 2014 and 2016, the Tourism Bureau of Milne Bay conducted surveys about spending behavior of cruise ship tourists in Alotau (no information was provided on spending in other islands in Milne Bay Province). The 2014 survey found that tourists spent on average about US$35 on shore, mostly on tours and souvenirs (this estimate did not include money spent on tours booked through the cruise line, so the actual amount spent in Alotau could be higher). The 2016 survey did not contain an average spending amount, but concluded that very few tourists spent more than A$50 (about US$36). No information was provided by the Tourism Board of ENB on spending of foreign tourists arriving by ship in Rabaul. According to the IFC-sponsored study on cruise ship tourism in PNG and the Solomon Islands, in 2015 foreign tourists spent about US$30 per capita per day in Alotau (close to the estimates prepared by the Tourism Bureau of Milne Bay), less than US$10 on other islands in Milne Bay, and about US$50 in Rabaul/Kokopo, presumably because there are more options for buying tours and souvenirs in these locations than in the other ports.

- **Average number of days spent (arriving by ship).** Without exception, in 2015 tourist ships arrived in the morning and leave in the evening of the same day. The average number of days spent in all ports was therefore 1.0 days.

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12 ENB Tourism Master Plan 2017-2022 (draft).
13 Cruise Ship Passenger Survey Results for the Call of Princess Cruises Sea Princess in Alotau (Milne Bay Tourism Bureau, July 2014) and Cruise Ship Passenger Survey Results for the Call of P&O UK Cruises Vessel Arcadia in Alotau (Milne Bay Tourism Bureau, March 2016).
Based on the above assumptions the total spending of foreign tourists arriving by ship in Milne Bay and ENB in 2015 was estimated at about US$2.3 million (Table 2). This amount is less than 5% of total spending by foreign tourists arriving by air, even though the number of cruise ship tourists is almost ten times as high. The main reasons for the difference is that foreign tourists arriving by air stay longer (on average more than 10 days instead of one day), spend money on accommodation, and spend more money than cruise ship tourists on tours, attractions, and other items (over US$200 per day, against less than US$30 by cruise ship tourists).

It may be argued that this analysis ignores the port fees that cruise ships need to pay. The total amount of port fees collected in 2015 in all ports covered by this analysis was estimated by the IFC-supported study at about US$2.1m; this was indeed considerable compared to total spending by foreign tourists arriving by ship in these ports. However, even after adding revenue for port fees, total spending by foreign tourists arriving by air remains far higher. More importantly, it remains unclear if port fees are sufficiently high to cover the incremental expenditure of the port operators (especially since 2013, when the national port operator started applying a 50% discount on port fees payable by tourism ships).

Table 2: Total Spending of Foreign Tourists Arriving by Ship in Milne Bay and ENB, 2015

<table>
<thead>
<tr>
<th>Port</th>
<th>Arrivals by Ship</th>
<th>Average Spending (US$/day)</th>
<th>Days Spent in Port</th>
<th>Total Spending (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Tours**</td>
<td>Other</td>
<td>Total</td>
</tr>
<tr>
<td>Alotau</td>
<td>27,000</td>
<td>22</td>
<td>7</td>
<td>29</td>
</tr>
<tr>
<td>Milne Bay, other ports*</td>
<td>52,200</td>
<td>2</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Rabaul</td>
<td>19,700</td>
<td>40</td>
<td>11</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>98,900</td>
<td>15</td>
<td>8</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: World Bank estimates based on IFC et al (2016) and Tourism Bureaus of Milne Bay and ENB.

* Doini, Kativa and Kiriwani
** Average spending on local tours plus 50% of pre-booked tours (assuming that 50% of money spent on tours booked through a cruise line does not benefit the provincial economy).

Current level of spending of foreign tourists in Milne Bay and East New Britain: summary. In 2015, foreign tourists spent about US$60m in the two target provinces. Each province accounted for about half of total spending, and foreign tourists arriving by air accounted for 96% of total spending (not including spending on air transport and 50% of spending on pre-booked tours through cruise lines).

Table 3: Arrivals and Spending of Foreign Tourists in Milne Bay and ENB, 2015

<table>
<thead>
<tr>
<th>Province</th>
<th>Arrivals by Air</th>
<th>Arrivals by Ship</th>
<th>Total Spending (US$ million)</th>
<th>By Air as % Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milne Bay</td>
<td>4,700</td>
<td>79,200</td>
<td>28.6</td>
<td>3.7</td>
</tr>
<tr>
<td>East New Britain</td>
<td>5,200</td>
<td>19,700</td>
<td>29.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td>9,900</td>
<td>98,900</td>
<td>57.8</td>
<td>60.0</td>
</tr>
</tbody>
</table>

Source: World Bank estimates based on IFC et al (2016) and Tourism Bureaus of Milne Bay and ENB.
Project-induced spending by foreign tourists in target provinces. To estimate the potential impact of TSDP on the level of spending by foreign tourists visiting Milne Bay and ENB, and thereby improve the welfare of its inhabitants, projections were prepared for two scenarios:

1. Without project (WOP). As expected, these are projections for spending by foreign tourists in Milne Bay and ENB assuming that TSDP will not invest in these provinces (such a scenario is also called “base case”, “do nothing scenario” or “business as usual”).

2. With project (WP). These are projections for spending by foreign tourists assuming that TSDP will finance Components 2 and 3 in the target provinces. It was assumed that the WP and WOP scenarios will begin to diverge in 2020, when most infrastructure subprojects would be completed.

The difference in spending by foreign tourists in the WOP and WP scenarios is the increase in spending that is attributable to the project. For obvious reasons, the increase depends on the assumptions used for projecting tourist spending in both scenarios. As described below, these assumptions are different for foreign tourists arriving by air and by ship.

Assumptions for projecting spending of foreign tourists arriving by air. At US$538, average daily spending by foreign tourists who arrived by air in 2015 is already very high. There also appears limited flexibility in further increasing the average duration of stay (which, at about 11 days, is also high given that the majority of foreign travelers arriving by air wish to visit more than one province, and are presumably bound by overall time constraints). It was therefore assumed that increases in total spending by this group would be derived from increases in the number of arrivals. WTTC expects international tourist arrivals in PNG to increase by 3.3% per year during 2015-2025. It was conservatively estimated that TSDP-financed investments would enable foreign arrivals to grow at a 20% higher rate, i.e. 4.0% p.a.

Assumptions for projecting spending of foreign tourists arriving by ship. It was assumed that tourism ships will continue to stay for a single day in all ports of call, as cruise ships have a strong financial incentive to minimize time spent in ports (i.e. no overnight stays anticipated). It was also assumed that the change in the number of cruise ship passengers is driven by demand factors (mostly demographic trends, which are favorable for cruise lines because of a rapid increase in senior citizens, who account for over 80% of cruise ship passengers) but not by supply factors, such as improved port facilities or tourism infrastructure. For both WP and WOP scenarios, the foreign tourist arrivals by ship were therefore assumed to increase with the long-term growth rate of cruise ship passenger trips (estimated at 6.5% p.a.). There appears, however, substantial scope for increases in average spending, which is far lower in Milne Bay than in Rabaul, and again lower in Rabaul than in Fiji or Vanuatu. It was therefore assumed that TSDP-financed investments would enable ports to increase average spending by foreign cruise ship tourists to the port at the next spending level. Assumed increases in daily spending can be summarized as follows:

- Rabaul/Kokopo: from the current level of US$51 to US$90, the level of ports in Fiji and Vanuatu,
- Alotau: from the current level of US$29 to US$50, about the level in Rabaul/Kokopo, and
- Milne Bay islands: from the current level of US$9 to US$30, about the level in Alotau.

Average spending would increase by 3.9% p.a. in real terms until the target level is reached. (The rate of 3.9% is the real growth rate of the global tourism sector during 2015-2025 according to WTTC.)
**Estimation of project-induced spending by foreign tourists in target provinces.** Based on the assumptions described earlier in this section, “with project” spending by foreign tourists would be substantially high then WOP spending. The difference would increase from US$0.6m in 2020, the first year in which the WP and WOP scenarios diverge, to US$25.7m, the penultimate year in the economic lifetime of the project, which is set at 20 years. In 2040, increases in Alotau would account for 47 percent in total increases in spending, followed by Rabaul (42 percent) and other locations in Milne Bay (11 percent).

**Table 4: WP and WOP Spending by Foreign Tourists in Milne Bay and ENB, Selected Years**

<table>
<thead>
<tr>
<th>Foreign Tourist Spending</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
<th>2040</th>
</tr>
</thead>
<tbody>
<tr>
<td>With project (WP)</td>
<td>71.7</td>
<td>88.4</td>
<td>108.6</td>
<td>133.6</td>
<td>163.7</td>
</tr>
<tr>
<td>Without project (WOP)</td>
<td>71.1</td>
<td>84.1</td>
<td>99.1</td>
<td>116.9</td>
<td>138.0</td>
</tr>
<tr>
<td>Project-induced increase in spending</td>
<td>0.6</td>
<td>4.3</td>
<td>9.6</td>
<td>16.8</td>
<td>25.7</td>
</tr>
</tbody>
</table>

Source: World Bank estimates based on IFC et al (2016) and Tourism Bureaus of Milne Bay and ENB.

3. **Other Economic Impacts**

**Indirect impacts.** These consist of:

- capital investment spending by private firms directly involved in tourism, such as new visitor accommodation and passenger transport equipment, as well as restaurants and leisure facilities for specific tourism use,
- government spending in support of general tourism activity (other than TSDP-financed activities), such as tourism promotion, visitor information services, administrative services and other public services, and
- supply-chain effects, resulting from purchases of domestic goods and services directly by different industries.

In its most recent analysis of the economic impacts of tourism on PNG, WTTC estimated the indirect impacts of increases in tourism spending as 160% of direct impacts, which implies a multiplier of 2.6. This estimate seems far too high, given that little government spending will take place in Milne Bay and ENB in addition to TSDP-financed investments (which are already captured by the estimation of direct economic impacts). In addition, supply-chain effects in PNG are subdued because of the country’s heavy reliance on imports. For these reasons, a more conservative multiplier of 1.5 was assumed.

**Induced impacts.** These are the impacts of increased spending by persons who are directly or indirectly employed in the tourism sector. WTTC estimates the induced impacts as about 25% of

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15 A recently completed analysis of infrastructure spending in Nusa Tenggara, a part of Indonesia with economic characteristics similar to PNG, also estimated that indirect impacts were about 50% of direct spending; see A Study on the Economic Impacts of PNPM Rural 2012-2015 (World Bank, March 2016).
the combined direct and indirect economic impacts. This estimate was deemed reasonable and used for estimating the project’s total economic impacts.

**Incremental income.** Sofield estimates the income multiplier for the tourism sector in PNG at 0.50. In other words, for every additional foreign tourist dollar spent in the economy, 50 cents of local income is generated, including direct, indirect and induced effects. Based on the assumed multipliers, the incremental income for project-induced increases in spending by foreign tourists can be expressed as (1.5 x 1.25 x 0.5 =) 0.94 of the direct economic impact.

4. **Comparison of Economic Benefits with Economic Costs**

**Economic benefits.** The economic benefits to be generated by the project were valued at the incremental income derived from increases in direct, indirect and induced spending by foreign tourists in the provincial economies of Milne Bay and ENB. These benefits increase from US$0.6m in 2020 to about US$26.1m in 2041, the last year of the project’s assumed economic lifetime.

**Economic costs.** Details on the economic costs and benefits of items to be financed by Components 2 and 3 are not available at the preparation stage as these will be identified during project implementation. The available budget for the two components is US$16m, of which US$13m would be used for infrastructure and supporting activities (such as supporting tourism business development) and the remaining US$3m for consulting services. Any applicable taxes would be financed from the IDA loan, and the after-tax budget was estimated at US$14.5 million. No conversion factor was applied, given PNG’s heavy reliance on imports. The economic investment cost was therefore also estimated at US$14.5m. The economic cost of management, operations and maintenance cost of infrastructure subprojects was estimated at 3% of the economic investment cost. The residual value of the subprojects was estimated at 20% of the investment cost, to be realized at the end of the subproject’s 20-year economic lifetime.

**Economic internal rate of return.** The economic internal rate of return (EIRR) of the net benefits from the project was compared to the economic opportunity cost of capital (EOCC), and the project was deemed economically feasible if its EIRR exceeded the EOCC. Following a recently issued Bank guideline, the EOCC was estimated at double the long-term per capita economic growth rate of PNG, or (2 x 4.5% =) 9%. The EIRR of the net incremental income generated by the project was estimated at 23.2%, substantially higher than the minimum required rate of 9%. This means that the project is economically feasible. The same conclusion can be derived from the economic net present value, which was positive when net benefits were discounted at the EOCC (US$38.4 million).

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5. Sensitivity Analysis

**Key drivers of economic benefits.** Economic benefits were derived from projected increases in spending by foreign tourists in Milne Bay and East New Britain. As described in Section 2, the project is expected to increase direct spending of foreign tourists through investments aimed at:

- accelerating the growth in the number of foreign tourists arriving by air (average daily spending and the total number of days spent was assumed to be the same as in the WOP scenario), and
- increasing average daily spending by foreign tourists arriving by ship (for this group, the number of arrivals and average daily spending was assumed to be the same as in the WOP scenario).

Direct spending was converted into economic benefits by applying an indirect spending multiplier (1.5), induced spending multiplier (1.25) and income multiplier (0.5), the product of which is 0.94. This means that economic benefits are also dependent on the assumed values of these multipliers.

**Results of sensitivity analysis.** Sensitivity tests were conducted by varying the assumptions about the key drivers of the project’s economic benefits: (i) growth in foreign tourists arriving by air, (ii) average daily spending by foreign tourists arriving by ship, and (iii) multiplier values. The results of the tests indicate that the economic feasibility of TSDP is most sensitive to unfavorable changes in the growth of foreign tourists arriving by air. If the assumed growth rate is 10% higher than the growth in global tourism (3.6% p.a.) instead of 20% higher (4.0% p.a.), the EIRR drops from 23.2% to 17.7% (Table 5). If the combined value of the three multipliers is reduced by 20%, from 0.94 to 0.75, the EIRR drops to 20.4%. The project remains viable until the combined multiplier value drops below the much lower switching value of 0.25. This means that the economic viability of TSDP is not very sensitive to changes in the original multiplier values, which were already conservatively estimated. The project’s economic viability is even less sensitive to assumed values of average daily spending by foreign cruise ship tourists. If the assumed increases in average daily spending in the ports of Alotau, Milne Bay islands and Rabaul are reduced by 50%, the EIRR drops to 22.7%. In fact, the project remains economically viable without any increase in spending by foreign cruise ship tourists. This is because increases in spending by foreign tourists arriving by air are far more important than increases in spending by cruise ship tourists (see also Table 3). Even if all of the assumed adverse changes to key drivers of economic benefits would happen simultaneously, the project would remain economically feasible with an EIRR of 14.4%.

**Table 5: Sensitivity of Project Economic Indicators to Changes in Selected Assumptions**

<table>
<thead>
<tr>
<th>Key Driver</th>
<th>Assumption</th>
<th>ENPV (US$ m)*</th>
<th>EIRR (percent)</th>
<th>Switching Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAGR of foreign tourist arrivals by air**</td>
<td>1.2 x TGR</td>
<td>1.1 x TGR</td>
<td>19.3</td>
<td>17.7</td>
</tr>
<tr>
<td>Maximum spending of foreign cruise ship tourists, US$/day (Alotau/Islands/Rabaul)</td>
<td>50/30/90</td>
<td>40/20/70</td>
<td>35.1</td>
<td>22.7</td>
</tr>
<tr>
<td>Multiplier value (combined)</td>
<td>0.94</td>
<td>0.75</td>
<td>28.0</td>
<td>20.4</td>
</tr>
<tr>
<td>Combination of the above</td>
<td>(see above)</td>
<td></td>
<td>10.1</td>
<td>14.4</td>
</tr>
</tbody>
</table>

Source: World Bank estimates

* Expressed in constant mid-2016 prices.
** AAGR: average annual growth rate; TGR: global tourism growth rate (as projected by WTTC for 2015-2025).
*** Project remains economically viable without increase in current spending levels by foreign cruise ship tourists.