



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 2-Apr-2018 | Report No: 126596



BASIC INFORMATION

A. Basic Project Data

Country Independent State of Papua New Guinea	Project ID P165717	Project Name First Economic and Fiscal Resilience Development Policy Operation	Parent Project ID (if any)
Region East Asia Pacific	Estimated Board Date August 31, 2018	Practice Area (Lead)(s) Macroeconomics, Trade and Investment; Governance	Financing Instrument Development Policy Financing
Borrower(s) Independent State of Papua New Guinea	Implementing Agency Department of Treasury		

Proposed Development Objective(s)

The Program Development Objective is to:

- * Strengthen fiscal management and revenue performance;
- * Strengthen key building blocks for public financial management; and
- * Support prospects for inclusive growth.

Financing (in US\$, Millions)

SUMMARY

Total Financing	100
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DETAILS

Source:	
IDA	100
Co-financing	-

Decision

The Decision from the Concept Meeting was to authorize the team to continue to prepare the operation.



B. Introduction and Context

Country Context

Papua New Guinea (PNG) is a resource-dependent lower-middle income country, with a per capita GDP of USD 2,690 in 2017. The economy is dependent on two sector groups – the resource sector (minerals and petroleum) and the agricultural, forestry and fishing sector. Combined, these account for 46 percent of GDP, with the resource sector accounting for the majority of exports (81 percent). Further, the informal economy is largely linked to the agriculture sector. Throughout PNG’s history, growth has been susceptible to the vagaries of the commodity price cycle. Commodity prices began to fall in 2012, hurting government revenues and putting a brake on inward investment and public spending growth. The adverse impact of the commodity price slowdown from 2012 onwards was mitigated by the construction and later opening of the PNG LNG plant in 2014. Once the base effects following the commencement of LNG production have been accounted for, similar to other resource-rich economies, the decline in commodity prices led to a commodity-driven slowdown in growth. Recent fiscal consolidation and reforms, and discussions with the IMF on possible actions to strengthen the monetary and exchange rate policy framework, underpin the assessment that the macroeconomic policy framework is adequate for the purpose of the proposed operation. Going forward, the government is working to build on existing reform progress in the areas of fiscal management, revenue mobilization, public financial management (PFM), empowering women’s participation in the economy, and forging partnerships with the private sector to improve service delivery and provide private sector development opportunities.

Relationship to CPF

The proposed series is expected to be a central component of the World Bank Group’s overall engagement with PNG, as reflected in the Country Partnership Framework (CPF) that is being prepared. The recently completed SCD suggests that the CPF objectives may include ensuring prudent macroeconomic policy management, and deepening and widening access to quality services, linked to outcomes including stronger macroeconomic management of resource flows, stronger revenue collection and stronger PFM. The first two pillars of the proposed operation will be closely aligned with these objectives and outcomes, and are expected to support poverty reduction and shared prosperity through improved medium term fiscal stability, expenditure sustainability and budget execution – critical foundations for the delivery of public services of most importance to the poor. CPF objectives may also include enabling inclusive job creation and growth in the private sector, linked to outcomes including boosting the participation of women in the economy. The third pillar of the proposed operation will be closely aligned with these objectives and outcomes, and is expected to support poverty reduction and shared prosperity through improving the policy environment for women’s access to finance and facilitating private sector partnerships to improve service delivery. The proposed series will be complemented by a set of other World Bank Group operations in support of the CPF that is under preparation, possibly including support for rural service delivery, youth employment, infrastructure investments, sectoral investments, and women’s participation in the private sector.

C. Proposed Development Objective(s)

The Program Development Objective (PDO) is to: (i) strengthen fiscal management and revenue performance; (ii) strengthen key building blocks for public financial management; and (iii) support prospects for inclusive growth.

Key Results

The main results expected from the proposed series are: (i) improved fiscal stability and sustainability; (ii) better cash management, expenditure control, and budget process; (iii) empowering women’s participation in the economy; and (iv) forging partnerships with the private sector to improve service delivery and provide private sector development opportunities.



D. Concept Description

Contributing to the first PDO on a fiscal management and revenue performance, the proposed operation supports the adoption of the non-resource primary balance as a share of non-resource GDP as a fiscal anchor, measures to improve tax administration and compliance (including the approval of the new Tax Administration Act, making Tax Identification Numbers mandatory, and the structure of a new Large Taxpayer Office), the preparation and publication of a tax expenditure statement, and an increase in the excise on diesel. Contributing to the second PDO on public financial management, the proposed operation supports the rollout of the new Integrated Financial Management System in national government departments, measures to strengthen cash management, and measures to strengthen the budget process. Contributing to the third PDO on prospects for inclusive growth, the proposed operation supports the adoption of the Financial Sector Development Strategy, National Financial Inclusion Policy and Gender-Equitable Financial Inclusion Strategy for micro-finance providers, and the gazettal of the new Public-Private Partnership Act.

The policy actions contributing to the first PDO are directly aligned with the fiscal management and revenue mobilization components of the government's development program. The fiscal anchor and diesel excise actions also support the disaster responses and recovery objective and broader environmental protection objectives under the sustainable development and climate resilience component of the government's program. The policy actions contributing to the second PDO are directly aligned with the PFM reform component of the government's program. The policy actions contributing to the third PDO, are directly aligned with the gender equality and private sector partnerships for service delivery components of the government's program.

E. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The policy actions on establishing a medium-term fiscal anchor, strengthening revenue administration and enhancing revenue compliance, preparing a tax expenditure statement, implementing the IFMS, strengthening cash management, and strengthening the budget process, are expected to have an indirect, positive effect on poverty reduction. This is due to their contribution to a more stable public expenditure profile and better budget execution, both of which should support the delivery of public services. Given the strong correlation between delivery of key services and poverty, ensuring the delivery of public services will have an indirect impact on reducing poverty. The policy actions on adopting new financial sector and financial inclusion strategies, and establishing a legislative framework for public-private partnerships to improve service delivery, are expected to have both a direct and an indirect impact on poverty reduction, directly through increasing access to finance for the poor – particularly for women – and indirectly by supporting improved service delivery. The policy action on increasing diesel taxation is expected to have a small negative impact on poverty, all else constant. Given that diesel accounts for only 0.5 percent of the CPI basket and transport (as a whole) accounts for 12 percent of the CPI basket, the share of household expenditure on transport (particularly diesel) is small. Therefore, even though the poorest quintiles are expected to have a higher dependence on diesel-based public transport, the impact is expected to be relatively small. Analytical work is of course necessary to establish the magnitude of the impact of the higher diesel taxation to determine the exact impact on the poor and whether its impact on women is likely to be different from its impact on men.

Environment Impacts

Most of the prior actions supported under the proposed operation are not expected to have significant effects on PNG's environment, forests or natural resources. These concern establishing a medium-term fiscal anchor, strengthening revenue administration and enhancing revenue compliance, preparing a tax expenditure statement, implementing the IFMS, strengthening cash management, strengthening the budget process, adopting new financial sector and financial inclusion strategies, and establishing a legislative framework for public-private partnerships to improve service delivery, which in the team's judgement will not have significant environmental effects. The action on



diesel taxation is expected to have significant positive environmental effects. Emissions from diesel combustion have been found to have severe negative local environmental impacts, significantly more so than those from petroleum. Diesel emissions include nitrogen and sulfur dioxides, and particulate matter, which are harmful to human health and have been linked to respiratory illnesses. While mitigating technologies such as particulate filters, exhaust gas recirculation and selective catalytic reduction do exist, these require maintenance and tend to be absent from older vehicles. Consequently, in a low-income country such as Papua New Guinea, where the vehicle fleet is old and poorly maintained, and where commercial diesel generators are unlikely to include newer mitigation technologies, shifting the composition of fuel use in favor of petroleum is expected to yield significant benefits for air quality and human health.

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APPROVAL

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