



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 11-Dec-2020 | Report No: PIDC30111



BASIC INFORMATION

A. Basic Project Data

Country Papua New Guinea	Project ID P174347	Project Name Papua New Guinea Crisis Response and Recovery Development Policy Operation (P174347)	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Board Date Mar 17, 2021	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) The Independent State of Papua New Guinea	Implementing Agency Department of Treasury		

Proposed Development Objective(s)

The Program Development Objective is to support the Government of Papua New Guinea to: (i) protect lives and the health of the population during the COVID-19 crisis; (ii) support livelihoods of vulnerable households and small businesses affected by the crisis; and (iii) lay the foundations for more resilient recovery over the medium-term.

Financing (in US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed Development Policy Operation (DPO) is a stand-alone credit of the International Development Association (IDA) in the amount of US\$100 million. As part of the COVID-19 response, the proposed highly concessional IDA credit is considered an appropriate option vis-à-vis a higher cost loan of the International Bank of Reconstruction and Development (IBRD) available to the Independent State of Papua New Guinea (PNG). The DPO dialogue is central to the



overall engagement of the World Bank Group (WBG) with PNG on its development strategy and in response to the COVID-19 pandemic. The proposed DPO supports the government in its health and social assistance response to the COVID-19 crisis and preparing the economy for a more resilient recovery over the medium term.

The economy has been hit hard by COVID-19 due to weaker aggregate demand and less favorable terms of trade. The economy contracted by 3.8 percent in 2020 (6 percentage points less than the pre-crisis projection), the fiscal deficit expanded to about 8 percent of GDP (3 percentage points higher than the pre-crisis projection), and the debt-to-GDP ratio almost reached 49 percent (9 percentage points higher than the pre-crisis projection). The government reacted swiftly to COVID-19 by taking measures to limit the spread of the virus and to build the requisite capabilities of the health sector to respond. The authorities also responded to risks of the pandemic, by approving a fiscal package of emergency health and economic relief measures. The Bank of Papua New Guinea (BPNG) injected additional liquidity into the system and provided foreign currency for COVID-19-related purchases of medicine and medical equipment. In terms of the macroeconomic outlook, growth is expected to rebound to above 3.5 percent in 2021–22 and inflation is estimated to be higher following stronger domestic demand. The external current account is projected to be in surplus, assuming recovery of external demand and higher commodity prices. According to the 2021 Budget Strategy Paper, the government is committed to resume fiscal consolidation, to bring its budget back on fiscal and debt sustainability track. Reflecting economic uncertainties, the BPNG is expected to continue its accommodative monetary policy over the near term with potential normalization to follow subject to inflationary pressure and economic growth. Potential banking sector vulnerabilities will require close monitoring, owing to COVID-19 related financial sector policy measures. The June 2020 Debt Sustainability Analysis—prepared in the context of the IMF RCF preparation—assessed PNG’s public debt to be on a sustainable path, conditional on the implementation of prudent fiscal policies. The macroeconomic policy framework is adequate for the purposes of this operation.

Relationship to CPF

The proposed DPO is aligned with the WBG’s overall engagement with PNG, as laid out in the Country Partnership Framework for the period FY19–FY23 (CPF). It is also aligned with the WBG’s twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner, and with the WBG’s COVID-19 Crisis Response Approach Paper (‘Approach Paper’). The first focus area of the CPF is ‘improving macro and fiscal resilience’, under which the first objective is to ‘strengthen fiscal management’. The third pillar of the DPO is aligned with this objective, with its focus on medium-term fiscal and debt sustainability, and on mitigating potential fiscal risks from the state-owned enterprise (SOE) sector. This focus area of the CPF and pillar of the DPO are expected to support the twin goals through improved fiscal and debt sustainability, and better governance of key fiscal risks. It is aligned with the fourth pillar of the Approach Paper, ‘strengthening policies, institutions and investments for rebuilding better’. The second focus area of the CPF is ‘ensuring more effective and inclusive service delivery’, under which the second objective is to ‘improve access to and quality of human development services’. The first pillar of the DPO is aligned with this objective, with its focus on protecting lives and the health of the population during the COVID-19 crisis. This focus area of the CPF and pillar of the DPO are expected to support the twin goals through supporting the delivery of basic health services. It is aligned with the first pillar of the Approach Paper, ‘saving lives’. The third focus area of the CPF is ‘encouraging private sector growth and job creation in the non-resource sectors’, under which the first objective is to ‘improve MSME competitiveness and access to financial services’, and the third objective is to ‘deepen economic participation of women and youth’. The second pillar of the DPO is aligned with this objective, with its focus on supporting micro, small, and medium-sized enterprises (MSMEs) affected by the crisis and establishing a new government program to provide short-term employment for the poor and vulnerable, including women. This focus area of the CPF and pillar of the DPO are expected to support the twin goals through cushioning the impact of the crisis on poor and vulnerable households and small businesses. It is aligned with the second and third pillars of the Approach Paper, ‘protecting poor and vulnerable people’ and ‘ensuring sustainable business growth and job creation’. The proposed DPO is also complemented by a set of other WBG operations to achieve the



CPF outcomes in alignment with the Approach Paper.

C. Proposed Development Objective(s)

The Program Development Objective is to support the Government of Papua New Guinea to: (i) protect lives and the health of the population during the COVID-19 crisis; (ii) support livelihoods of vulnerable households and small businesses affected by the crisis; and (iii) lay the foundations for a more resilient recovery over the medium-term.

Key Results

The proposed DPO supports the government in its health and social assistance response to the COVID-19 crisis and preparing the economy for a more resilient recovery over the medium term. It will lead to better health coverage during the pandemic, adequate support to vulnerable households and small firms affected by the crisis, and more prudent macroeconomic and fiscal management in the post-crisis period.

D. Concept Description

Pillar 1 supports actions that deliver adequate funding for the health sector to respond to the COVID-19 pandemic and maintain the other important frontline health services during the crisis. Pillar 2 supports the extension of social assistance to the newly unemployed in the formal and the informal sectors and the provision of financial assistance to MSMEs for protecting jobs, especially in rural areas. While Pillar 1 and Pillar 2 support the immediate crisis-response needs, Pillar 3 looks beyond the current crisis, laying the foundations for a resilient recovery and government's ability to respond more efficiently and effectively to future shocks. Pillar 3 supports government's commitment to resume much-needed fiscal consolidation in the post-crisis period, when the COVID-19 crisis eventually subsides, and tackle key structural challenges of fiscal and debt sustainability, while managing fiscal risks from the SOE sector.

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

Poverty and Social Impacts

Actions under the first pillar on protecting the lives and health of the population are expected to be of benefit to vulnerable groups who are most at risk from COVID-19, through containing the pandemic and safeguarding the healthcare system. Actions under the second pillar are expected to help the poor and vulnerable, by extending social assistance to newly unemployed formal sector workers and to the informal sector, given the limited formal social assistance otherwise available in PNG. Actions under the second pillar should also be supportive of those who are vulnerable and likely to be poor, including rural households, micro-enterprises and those working informally, through support to MSMEs. No specific conclusions can be drawn about the impact on the poor and vulnerable of actions under the third pillar, but there is no apparent risk of a negative impact of these actions on the poor and vulnerable.

Environmental, Forests, and Other Natural Resource Aspects

Most of the prior actions supported under this operation are not expected to have significant effects on PNG's environment, forests or natural resources. Further assessment of the possible negative environmental impact of actions under the first pillar will need to be made, with mitigating measures identified. Further assessment of the possible positive environmental impact of actions under the third pillar will also need to be made, including to assess their possible contribution to mitigating the effects of climate change.



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APPROVAL

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Approved By

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