

## PROJECT INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.: PIDA61888

<b>Project Name</b>	Water Supply and Sanitation Development Project (P155087)
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Papua New Guinea
<b>Sector(s)</b>	Water supply (90%), Sanitation (10%)
<b>Theme(s)</b>	Rural services and infrastructure (25%), Urban services and housing for the poor (75%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P155087
<b>Borrower(s)</b>	Independent State of Papua New Guinea
<b>Implementing Agency</b>	Department of National Planning and Monitoring, Water PNG
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	04-Apr-2016
<b>Date PID Approved/Disclosed</b>	05-Apr-2016
<b>Estimated Date of Appraisal Completion</b>	08-Apr-2016
<b>Estimated Date of Board Approval</b>	24-May-2016
<b>Appraisal Review Decision (from Decision Note)</b>	The appraisal review endorsed a decision to move forward with project preparation. Given the advanced stage of project preparation, the review authorized the upgrade of the recently completed pre-appraisal follow up mission to appraisal, subject to the incorporation of the recommendations of the appraisal review, the finalization of several financial management arrangements, and the finalization and disclosure of project safeguards instruments.

### I. Project Context

#### Country Context

1. Eighty seven percent of Papua New Guinea's (PNG's) seven million people live in rural areas. Almost all the rest live in small urban centers, the majority of which have a population of well below 30,000 people. Only Port Moresby and Lae have sizable populations at about 365,000 and 88,000 respectively. Average national population density is low at about 14 per km<sup>2</sup>. PNG's population is characterized by a very diverse number of social groups, with strong local and clan-based affinities and allegiances. There are over 800 distinct languages.

2. Despite substantial natural wealth and recent positive economic performance, PNG's human development indicators remain amongst the lowest in the world. The economy is dominated by: (i) the agricultural, forestry and fishing sector, where most of the population are informally engaged in,

and (ii) the minerals and energy extraction sector which accounts for the majority of export earnings. Overall, there has been sustained positive economic performance over the past decade. However, PNG's Human Development Index (HDI) ranking is 157, the lowest ranked in the Pacific region along with the Solomon Islands. The poverty rate in 2010 is 39.9 percent, with poverty more prevalent in rural areas (42%) vis-à-vis urban centers (29%). The level of consumption inequality, measured by the Gini coefficient, is 0.4 in 2010. PNG has fallen short of virtually all its Millennium Development Goals (MDGs). PNG's lack of infrastructure facilities (especially in rural areas), coupled with a prevailing scenario of weak institutions, transparency and accountability, are major constraints to economic development and delivery of basic services to the population.

3. The long term development strategy of PNG envisions transforming the country and its society towards a top 50 ranking in the HDI index by 2050. Vision 2050 (launched in 2009) established the seven pillars of strategic planning, systems and institutions, human development, wealth creation, security and international relations, environment and climate changes, and partnerships with churches on which to build this vision. The Vision 2050 focus areas were translated into various economic policies, public policies and sector interventions in the PNG Development Strategic Plan (DSP) 2010 – 2030. At the heart of the DSP 2010 – 2030 is the aim of achieving a prosperous middle income country status by 2030.

4. Recent reviews of the optimum path towards achieving the objectives and goals of Vision 2050 and DSP 2010 – 2030 have emphasized the need for deeper strategic planning and for responsible and sustainable development trajectories. The National Strategy for Responsible Sustainable Development (StaRS) 2013 charts out a new development roadmap towards the goals of Vision 2050 and DSP 2010 – 2030. StaRS prescribes a growth strategy based around the responsible management and use of PNG's non-renewable and renewable natural resources for the benefit of a sustainable and stable population size. StaRS recognizes water resources as a key renewable natural resource and strategic asset of the country.

5. The rolling Medium Term Development Plans (MTDPs) provide investment plans aligned to the StaRS, DSP 2010 – 2030 and Vision 2050. The recently launched MTDP 2016 – 2017 (MTDP 2) includes a goal of increasing access to reliable and affordable water and sanitation services and to improve hygiene behavior through, among others, the implementation of the recently approved National Water, Sanitation and Hygiene Behavior (WaSH) Policy.

### **Sectoral and institutional Context**

1. PNG has the lowest water and sanitation access indicators amongst the 15 developing Pacific Island nations. With approximately two-thirds of the entire population of these 15 nations, this has a huge impact on regional access performance. The latest (2015) update of the UN's Joint Monitoring Program (JMP) estimates access to safe drinking water and improved sanitation in PNG at 40% and 19% respectively. In the two decades since 1990, the increase in access to safe drinking water has been very small (access in 1990 was 34%), while improved sanitation coverage recorded a drop (access in 1990 was 20%). PNG has missed its MDG targets for water and sanitation, and is not on track to meet its own national development targets of 70% access by 2030, and 100% access by 2050.

2. Climate and disaster risk screening points to increasing hazards from extreme precipitation,

flooding and drought in the future, potentially impacting the security and sustainability of water supply in PNG. Predictions of rainfall decreases or increases from -2.7% to +25.8% in the northern Pacific, and -14% to +14.6% in the southern Pacific, could worsen floods or droughts. Recent evidence and model simulations point to more frequent occurrences of El Nino weather patterns, bringing an increase in drought conditions in this region. The National Disaster Center has estimated the 2015/16 El Nino to have affected up to 2.4 million people in PNG, with drought and frost impacting agriculture, leading to reduced health and nutrition statuses and other socio-economic losses e.g., from reduced crop harvest.

3. There are significant variations in the access rate, and the status and pace of development, among the rural water supply, rural sanitation, urban water supply and urban sanitation subsectors. The only subsector with increasing access since 1990 is the rural water subsector. Rural sanitation, urban water and urban sanitation access percentages have either stagnated or decreased since 1990, pointing to an inability to cope with population growth (about 2.8% per year). Rural access to improved water and sanitation stood at 33% and 13% respectively. The corresponding access figures for urban areas are 88% and 56% respectively. But even then, only 21 of the approximately 90 main urban centers are served by Eda Ranu and Water PNG, the two State-owned Enterprises (SOEs) responsible for service provision in the National Capital District (NCD) and other urban areas respectively. A handful of urban centers have some service provision provided by their subnational governments.

4. The current service provision arrangements, where they exist, are likely to change with the implementation of a new District Development Authority (DDA) Act (2014). Under the Act, a DDA will be created at every district. Among others, it will control budget allocation priorities and be responsible for service delivery in districts. DDAs are new structures and it may take some time before the outcome and/or success of this new arrangement can be gauged. The implementation of programs including water supply and sanitation (WSS) programs in districts may be negatively impacted during this period of institutional transition.

5. Financing requirements for the sector is very large. A recent high level Service Delivery Assessment study estimated that US\$2 billion of investments will be required to reach the Government's 2030 targets. Additionally, about US\$20 million per year will be required to finance the operation and maintenance (O&M) of current and future infrastructure. Financing requirements notwithstanding, the planning and decision making mechanisms for allocating financial resources to the sector by central and subnational governments are not entirely clear. Budget monitoring and reporting is incomplete – the national budgeting system does not fully distinguish water and sanitation budgets. Private resources extraction companies and non-state actors (faith-based groups, and domestic and international NGOs) have been important for supporting water supply developments in rural areas. But these have been limited to specific geographic areas, are dependent on unreliable funding streams and have limited O&M. Additionally, their contribution are off government budget and not reported.

6. Where public financing of WSS infrastructure occur, there are no overall sector level coordination or planning. Financing for WSS occurs on a case-by-case basis through the Provincial/District MPs' and Lower Level Government (LLG) Presidents' annual discretionary and non-discretionary funding. However, it is unclear how budget allocations are made or spent – the public financial management systems is very weak and accountability is lacking. On occasion, there are specific standalone national Public Investment Projects (PIPs) especially for larger

projects. Except in Eda Ranu and Water PNG areas, O&M are largely unmonitored and appear to be lacking in many areas.

7. Eda Ranu and Water PNG have specific governing legislations focused on their commercial roles with obligations to operate profitably and deliver financial returns to the state. Eda Ranu and Water PNG may not have financial incentives to expand their services into typically unprofitable peri-urban areas and smaller urban centers. A new Water and Sewerage Act due to be enacted some time during 2016 as part of an SOE reform initiative would further emphasize Water PNG to operate on fully commercial and profitable terms, with risks for service provision to less or non-profitable urban centers .

8. A new Community Service Obligation (CSO) policy for SOEs meant to address the discouragement to service unprofitable areas was approved in December 2013 but have yet to be implemented. This policy provides for Government funding to SOEs to cover for revenue gaps in providing goods and services in areas mandated by the government to the SOE but where revenue from user charges are insufficient to cover full cost or provide a commercial return. However, the policy does not provide the process or method of how such revenue support could be requested for. A detailed implementation guideline may be needed.

9. The National WaSH Policy is crucial to the effort to remedy the hitherto fragmented and uncoordinated provision of WSS services in PNG. The Policy was approved by the National Executive Council (NEC) in January 2015. It is a culmination of several years of effort by the Government, supported by donors and non-government stakeholders, to develop PNG's first sector-wide national policy on the development, management and implementation of the WSS sector development and service provision plans. The Policy provides for the establishment of a National Water, Sanitation and Hygiene Authority (NWSHA) for policy implementation, sector regulation, coordination and systemization, monitoring and capacity building.

10. Given the hitherto policy and institutional vacuum, the implementation of the National WaSH Policy is a huge challenge. Severe capacity constraints, exemplified by an almost complete lack of in-country personnel with overall and wide sector experience, pose an immediate challenge. The Government has taken the realistic approach of focusing on the establishment of a modest WaSH PMU as a nascent pre-cursor to an eventual NWSHA. Over time, the WaSH PMU will be strengthened and expanded to systematically assume more and more of the roles and functions envisaged for the NWSHA, while the longer term efforts to legally establish the NWSHA are undertaken in parallel.

## **II. Proposed Development Objectives**

The Project Development Objective (PDO) is to support the development and strengthening of the planning and implementation capacity of water sector institutions, and to increase access to water supply services in selected urban towns and rural districts.

## **III. Project Description**

### **Component Name**

Component 1: Institutional structures for the implementation of the WaSH Policy

### **Comments (optional)**

This component is focused on supporting the development of the key sector institution i.e., the

WaSH PMU, and key sector tools (strategies, plans and sector instruments) that will form the management framework of the sector as envisaged in the National WaSH Policy. At the end of the project, it is envisaged that the WaSH PMU will be able undertake its basic mandate of development planning and facilitating investments in rural and peri-urban areas. A sector monitoring system is to be developed and expected to begin operations during the project period.

#### **Component Name**

Component 2: Rural and Peri-urban Water and Sanitation

#### **Comments (optional)**

This component is focused on supporting the WaSH PMU to develop a framework for the coordination, planning and implementation of rural and peri-urban WSS. It will support and build the capacity of District Development Authorities (DDAs) to plan, develop, implement and monitor rural WSS. This component will initially pilot the development of District WaSH Development Plans in up to four selected pilot districts. This will provide lessons on how the WaSH PMU could work through subnational authorities towards a systematic increase of access to services in districts. Upon the successful development of district plans, selected investments in rural WSS based on these plans are expected to be undertaken.

#### **Component Name**

Component 3: Urban Water and Sanitation

#### **Comments (optional)**

This component is focused on supporting the expansion of WSS services to urban areas, specifically in district and provincial towns where Water PNG has the mandate to provide these services. This component will also support technical and financial improvements in Water PNG's existing operations, including improvement-focused rehabilitation of existing water and sanitation infrastructure. Additionally, an assessment of Water PNG's existing operating model will be carried out, in particular to identify potential future options to ensure continual financial viability as it expands service provision to new district towns.

#### **Component Name**

Component 4: Contingent Emergency Response

#### **Comments (optional)**

This Component will allow for the rapid reallocation of funds from other components to provide emergency relief, recovery and reconstruction support in the event of a natural disaster, emergency and/or catastrophic event.

### **IV. Financing (in USD Million)**

Total Project Cost:	77.30	Total Bank Financing:	70.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			7.30
International Development Association (IDA)			70.00
Local Sources of Borrowing Country			0.00
Total			77.30

### **V. Implementation**

1. The project will be implemented through the appropriate existing sector institutions in line with the National WaSH Policy. Implementation technical assistance in rural WaSH, engineering, institution and capacity development, monitoring and evaluation, communications, environmental and social safeguards, financial management and procurement will be provided as necessary.

2. The WaSH PMU will implement Components 1 and 2, i.e., those related to the implementation of the Policy and the provision of WSS services in rural and peri-urban areas. The WaSH PMU is led by a WaSH Sector Coordinator and has a core minimum complement of staff from DNPM for its initial 12 – 18 months of operations. The project will immediately strengthen this weak capacity with a complement of specialist consultants sufficient to undertake project implementation and management. Water PNG will implement Component 3, i.e., those related to the provision of WSS services in district and provincial towns. Water PNG has formed a dedicated project Management Unit (PMU-WPNG). Although Water PNG has a track record of implementing donor financed WSS projects of comparable size, human resources constraints will limit the volume of investments that it can simultaneously undertake. Thus, implementation will be phased implementation technical assistance will be provided.

## VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	<b>x</b>	
Natural Habitats OP/BP 4.04		<b>x</b>
Forests OP/BP 4.36		<b>x</b>
Pest Management OP 4.09		<b>x</b>
Physical Cultural Resources OP/BP 4.11	<b>x</b>	
Indigenous Peoples OP/BP 4.10	<b>x</b>	
Involuntary Resettlement OP/BP 4.12	<b>x</b>	
Safety of Dams OP/BP 4.37		<b>x</b>
Projects on International Waterways OP/BP 7.50		<b>x</b>
Projects in Disputed Areas OP/BP 7.60		<b>x</b>

**Comments (optional)**

## VII. Contact point

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