

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC31339

Project Name	Water Supply and Sanitation Development Project (P155087)
Region	EAST ASIA AND PACIFIC
Country	Papua New Guinea
Sector(s)	Water supply (85%), Sanitation (15%)
Theme(s)	Rural services and infrastructure (40%), Urban services and housing for the poor (60%)
Lending Instrument	Investment Project Financing
Project ID	P155087
Borrower(s)	Independent State of Papua New Guinea
Implementing Agency	Department of National Planning and Monitoring, Water PNG
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	02-Oct-2015
Date PID Approved/ Disclosed	12-Oct-2015
Estimated Date of Appraisal Completion	05-Feb-2016
Estimated Date of Board Approval	24-Mar-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

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 with well below 30,000 people. Only Port Moresby and Lae have sizable populations at about 360,000 and 155,000 respectively. Average national population density is low at about 14 per km². PNG's population is characterized by a very diverse and fragmented number of social groups, frequently with strong local and clan-based allegiances. There are over 800 distinct languages.

PNG has substantial natural wealth, including in forestry, minerals and fisheries. The economy is dominated by two broad areas: (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. There has been sustained positive economic performance over the past decade, including strong recent performances driven by a minerals

resources boom. A large liquefied natural gas (LNG) project was completed in 2014 and commencement of export is expected to lead to a one-time step increase in GDP growth of 16% in 2015.

Despite the economic performance, access to infrastructure and basic service delivery remains very low, particularly in the rural areas. PNG's human development indicators have lagged behind economic performance. The country has fallen short of virtually all its Millennium Development Goals (MDGs). PNG's lack of infrastructure facilities, 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. PNG's Human Development Index (HDI) ranking is 157, the lowest ranked in the Pacific region long with the Solomon Islands. The poverty rate in 2010 is 39.9 percent, with poverty more prevalent in rural areas vis-à-vis urban centers at 42 percent and 29 percent respectively. The level of consumption inequality, measured by the Gini coefficient, is 0.4 in 2010.

The long term development strategy of PNG is encapsulated in the Vision 2050 document (launched in late 2009). Vision 2050 focus areas were translated into various economic policies, public policies and sector interventions in the PNG Development Strategic Plan 2010 – 2030, aimed at transforming PNG into a prosperous middle income country by 2030. The rolling Medium Term Development Plans (MTDPs) provide investment plans aligned to the Strategic Plan 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.

The implementation of a new District Development Authority (DDA) Act begun in the past year, which will materially change the institutional, management and governance structure of basic service delivery. A DDA will be created at every district which will in general further decentralize PNG's governance arrangements to districts. Amongst others, DDAs will control budget allocation priorities and be responsible for service delivery at districts. DDAs are chaired by the district member of parliament (MP). District public servants will become formally accountable to the DDA priorities. An MP's annual discretionary and non-discretionary funding forms a significant part of district development funding. Monitoring and accountability tracking are weak given structural and political constraints. DDAs are new structures and many of the implementing and operating processes have yet to be established. It may take some time before the outcome and/or success of this new arrangement can be gauged. Likely, the implementation of programs including water and sanitation programs in districts may be negatively impacted during a period of institutional transition.

Sectoral and Institutional Context

The latest (2014) update of the UN's Joint Monitoring Program (JMP) estimates access to safe drinking water and improved sanitation in PNG in 2012 at 40% and 19% respectively. Both figures are the lowest when compared against 14 other developing Pacific island nations. Over the period of more than 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 from 20% in 1990 to 19% in 2012. PNG has missed its Millennium Development Goal target 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. With approximately two-thirds of the entire population of 15 developing

Pacific islands nations, the sector performance in PNG has a huge impact on regional access performance.

The overall 2012 JMP figures hide wide variations. 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 (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 19 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.

Eda Ranu and Water PNG have specific governing legislations and are regulated by the Independent Public Business Corporation (IPBC). They have commercial roles with obligations to operate profitably and deliver financial returns to the state. As a result, Water PNG is discouraged and limited from expanding its services into smaller (less profitable) urban centers and peri-urban areas. Water PNG had been expected to promote and support the development of water and sanitation in rural and peri-urban areas on a self-help basis, but this had occurred rarely and is in conflict with its profit seeking mandate.

There is as yet no corresponding utility or agency responsible for service provision in rural areas. In these areas, the provision of services where available fall to subnational governments, private resources extraction companies (providing services within their operating locations), and non-state actors. 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, dependent on unreliable funding streams and have limited operations and maintenance (O&M). NGO activities are often “under the radar” and not coordinated in a sector approach.

There are no sector-wide investments or operational plans. The planning mechanisms (including decision making) for allocating financial resources to the sector by central and sub-national governments are not entirely clear. Budget monitoring and reporting is incomplete – the national budgeting system does not fully distinguish water and sanitation budgets, while financing by NGOs and private resources extraction companies are off budget and not reported. Based on a WaSH Service Delivery Assessment (SDA) conducted in 2011, to reach the Government’s 2030 targets, the total investment required from 2011 to 2030 is approximately US\$2 billion, translating to US \$613 million for water supply and US\$1.4 billion for sanitation. The estimates for sanitation is very high on account of urban sewerage; nevertheless sanitation is a particularly underdeveloped sub-sector.

Financing of WSS infrastructure frequently occur on a case-by-case basis, through Provincial/ District MPs’ and Lower Level Government (LLG) Presidents’ annual discretionary and non-discretionary funding (for example, each district currently receives K15 million per year for development spending). It is also unclear how budget allocations are spent or if they are in fact 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. Operations and maintenance are largely unmonitored and appear to be lacking in many areas. The SDA estimates that around US\$20 million per year will be required to finance the

operation and maintenance of current and future infrastructure. Water PNG has development plans but is driven by its commercial and profit-making obligations. Government contribution to Water PNG's investment plans is limited and severely tempered by the expectation that SOEs should be commercial, profitable and self-financing.

After a number of years of development, PNG's first National WaSH Policy was approved by the National Executive Council (NEC) in late January 2015. This is a huge achievement and crucial to the effort to remedy the hitherto fragmented and uncoordinated provision of water and sanitation services in the country. Under this policy, a WaSH PMU is to be established, which is expected to be transformed into the National Water, Sanitation and Hygiene Authority (NWSHA) at a later date. The strategy and timing of this transformation has not yet been defined. The WaSH PMU / NWSHA would form the anchor agency for policy implementation, sector coordination and systemization, monitoring and capacity building. It will also establish and operate at least one Water Fund (to be governed by a Board led by DNPM) dedicated to financing the extension, rehabilitation and maintenance of WaSH service delivery primarily in rural and peri-urban settlement areas. Other aspects of the Fund is yet to be established.

Meanwhile, a new Water and Sewerage Act aimed at corporatizing Water PNG is expected to be enacted some time during 2015 as part of an SOE reform initiative. This will emphasize Water PNG to operate on fully commercial and profitable terms. While this will help clarify the roles and responsibilities of Water PNG, there is obvious risks for service provision to less or non-profitable urban centers. A new Community Service Obligation (CSO) policy for SOEs was approved by the NEC in December 2013. 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. The WaSH PMU / NWSHA has a role to work with and assist SOEs to apply for and utilize funding provided through the CSO framework.

Relationship to CAS

The CPS for FY13 – 16 (Report No. 71440-PG dated November 8, 2012) recognized that the historical lack of policy attention and public funding to the water supply and sanitation were beginning to change, with stakeholders beginning to mobilize increased attention and considering increased resources support. A niche role for the Bank was planned in the CPS to provide sector policy advice and technical assistance under Pillar 1 (Increased and more gender-equitable access to inclusive physical and financial infrastructure). This was envisaged help build consensus around both urban and rural water and sanitation priorities, possibly cascading into later investments focused on water and sanitation as an enabler of public health.

The Bank, through the Water and Sanitation Program (WSP) has been supporting the Government throughout the development of the National WaSH policy. WSP provided continuous technical assistance and policy advice to a Task Force led by the Department of National Planning and Monitoring (DNPM) since 2012 following a request for assistance from DNPM. The Task Force efforts culminated in the approval of the National WaSH Policy. Since then, DNPM and the Department of Treasury have requested continued assistance from the Bank to support the implementation of the Policy. This could include (i) further policy and sector management advice, (ii) support to develop and established various new institutional, planning, financing and monitoring processes and instruments, and (iii) the identification, financing and implementation of service delivery infrastructure. The proposed project expects to incorporate these support activities.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The specific proposed Project Development Objective (PDO) is to support the implementation of the National WaSH Policy. The PDO will be achieved by (i) supporting the development, establishment and strengthening of the sector institutional and financing structures provided by the Policy, and (ii) utilizing these institutional and financing structures to support improved the access and sustainability of water supply and sanitation (WSS) services in selected district and provincial towns.

Key Results (From PCN)

Given the institutional focus related to the implementation of the National WaSH Policy, one-off institutional results would be expected to form a part of the project's indicators. These are expected to include the establishment of the WaSH PMU, a Water Fund, and a WaSH Monitoring Information System (MIS). The project is also expected to support the performance improvement of Water PNG and its existing operations.

The project is also expected to invest in selected infrastructure to increase access to services - primarily in district towns served by Water PNG and through the implementation of rural WaSH programs in selected districts. . Relevant sector core indicators are expected to be utilized, i.e.,

- i. People provided with access to “improved water resources” under the project – urban and rural (numbers)
- ii. New piped household water connections that are resulting from the project intervention (number)
- iii. Piped household water connections that are benefiting from rehabilitation works undertaken under the project (number)
- iv. People provided with access to “improved sanitation facilities” under the project - urban and rural (numbers)
- v. People trained to improve hygiene behavior or sanitation practices under the project – male and female (numbers)

The WaSH MIS system to be established is expected to include the monitoring of these core sector indicators as well as provide the means for the Government to estimate and monitor expected upcoming Sustainable Development Goals (SDGs) indicators, i.e., percentage of urban/rural population using basic drinking water / using basic sanitation, percentage of septage removed and treated, etc.

III. Preliminary Description

Concept Description

The project would comprise a National WaSH Policy component, a rural and peri-urban WSS component and an urban WSS component. The rural and peri-urban WSS component, and the urban WSS component are in turn subdivided into a policy implementation or institutional strengthening subcomponent and an associated infrastructure investment subcomponent. A summary of the components follows.

Component A: National WaSH Policy

Institutional and financing structures for the implementation of the WaSH Policy. This component

will provide technical assistance, capacity building and other related support towards the establishment, operationalization and strengthening of a WaSH PMU in DNPM. This may include supporting the WaSH PMU to implement key building blocks of the National WaSH Policy, among others, (i) the WaSH Development Plan, (ii) a Capacity Development Strategy for the WaSH PMU and implementers on the ground e.g., districts, (iii) the WaSH Monitoring Information System (MIS), and (iv) a WaSH Communications and Promotion Plan.

Component B: Rural and Peri-Urban Water and Sanitation (WSS)

Component B.1: Institutional and financing structures for rural and peri-urban WSS. This component will provide technical assistance, capacity building and other related support towards: (i) the planning, development and implementation of rural and/or peri-urban WSS programs by selected subnational government authorities, and (ii) the development, establishment and initial seed financing of a Water Fund.

Component B.2: Infrastructure investment in water and sanitation systems in rural and peri-urban areas. This component will support the construction of an initial batch of rural and/or peri-urban WSS systems by the selected subnational government authorities referred to in Component B.1. This may include pilot development in particularly underdeveloped subsectors e.g., sanitation. It is envisaged that the systems will be funded through the Water Fund and would represent the first demonstration of the working of the Fund.

Component C: Urban Water and Sanitation (WSS)

Component C.1 – Institutional and financing structures for district and provincial towns WSS. This component will provide technical assistance, capacity building and other related support towards: (i) the establishment of a community service obligation support and funding scheme for urban WSS, in relation to the corporatization of Water PNG, (ii) the development and implementation of WSS service delivery model(s) for district and/or provincial towns, in relation to the corporatization of Water PNG, (iii) capacity building support to Water PNG, including in utilities management and operations, financial management, etc., in relation to improving its performance, (iv) technical, financial and other diagnostic studies related to the water resources and WSS supply operations in selected district and /or provincial towns, (v) preparation – including the assessment - of selected WSS sub-projects in district and/or provincial towns, (vi) the management and supervision of the implementation of these sub-projects.

Component C.2: Infrastructure investment in water and sanitation systems in selected District and / or Provincial Towns. This component will support: (i) the construction and implementation of new WSS systems in selected district and/or provincial towns, and (ii) the rehabilitation, augmentation, extension and/or other improvements of existing WSS services in selected district and/or provincial towns.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04			x

Forests OP/BP 4.36			x
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11			x
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	55.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			50.00
Local Sources of Borrowing Country			5.00
Total			55.00

VI. Contact point

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