

European Union - Papua New Guinea
National Indicative Programme
for the period 2014-2020

GENERAL CLAUSES

The European Commission and the Government of Papua New Guinea and the hereby agree as follows:

- (1) The European Commission, (represented by Neven Mimica, Commissioner for International Cooperation and Development) and the Government of Papua New Guinea, (represented by Charles Abel, Minister for National Planning) hereinafter referred to as the Parties, determined the general orientations for cooperation for the period 2014-2020. These orientations which are included in the National Indicative Programme, concern the European Union aid in favour of Papua New Guinea and were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, revised and signed in Luxemburg on 25 June 2005 and revised and signed in Ouagadougou on 22 June 2010. The National Indicative Programme is annexed to the present document.
- (2) As regards the indicative programmable financial resources which the European Union envisages to make available to Papua New Guinea for the period 2014-2020, an amount of EUR 184 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation).

A B-allocation referred to in Article 3.2 (b) can be established to cover unforeseen needs. This allocation is at EUR 0 until a need arises. These allocations are not entitlements and may be revised by the Commission, following the mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects. The National Indicative Programme concerns the resources of the A-allocation. It also takes into consideration financing from which Papua New Guinea benefits or could benefit under other European Union resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as humanitarian, emergency and post emergency assistance, where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate exogenous shocks. The B-allocation shall be established according to specific mechanisms and procedures and does therefore not constitute a part of the programming.
- (5) Following the entry into force on 1 March 2015 of the Internal Agreement between the Representatives of the Governments of the Member States of the European Union, meeting with the Council, on the financing of European Union Aid under the multiannual financial framework for the period 2014 to 2020, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Papua New Guinea within the limits of the A- and B-allocations referred to in this document under the condition that sufficient financial resources are available in the transitional measures ("Bridging Facility") composed of uncommitted balances from the previous EDFs and from funds decommitted from projects or programmes under those EDFs. The respective projects and programmes shall be implemented according to the rules and procedures of the 10th EDF until the entry into force of the 11th EDF implementing rules and financial regulation.
- (6) The European Investment Bank may contribute to the implementation of the present National Indicative Programme by operations financed from the Investment Facility and/or from its own

resources, in accordance with Articles 2c and 3 of the 11th EDF multi-annual financial framework for the period 2014-2020.

- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Indicative Programme document as well as the A-and B-allocations can be revised following the mid-term review and the end-of-term review or ad hoc reviews.

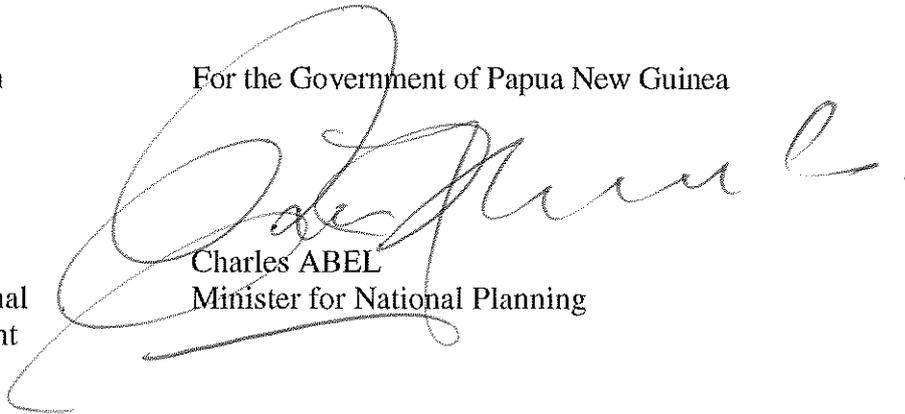
Done in Suva on 16 June 2015.

For the European Commission



Neven MIMICA
Commissioner for International
Cooperation and Development

For the Government of Papua New Guinea



Charles ABEL
Minister for National Planning

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List of acronyms PNG NIP 11th EDF

ADB	Asian Development Bank
AOFP	Annual Operational Financial Plan
AUD	Australian Dollar
AusAID	Australia Aid Programme
DoE	Department of Education
EIB	European Investment Bank
GCI	Global Competitive Index
GST	Goods and Services Tax
ICB	Institutional Capacity Building
ICCC	Independent Consumer & Competition Commission
ICT	Information and Communications Technology
iEPA	EU-PNG interim Economic Partnership Agreement
IFC	International Finance Corporation
ILO	International labour Organisation
IPA	Investment Promotion Agency
JAR	Joint Annual Review
JICA	Japan International Cooperation Agency
LNG	Liquefied Natural Gas
MDG	Millennium Development Goals
MSME	Micro, Small and Medium Size Enterprises
MTDP	Mid Term Development Plan 2010 – 2015
MTEF	Medium Term Expenditure Framework
NAO	National Authorising Officer
NDAP	National Agriculture Development Plan 2007-2016
NEP	National Education Policy
NZAid	New Zealand Aid Programme
PEFA	Public Expenditure and Financial Accountability

PFM	Public Financial Management
PNG	Papua New Guinea
PNGDSP	Papua New Guinea Development Strategic Plan 2010 – 2030
PPP	Public Private Partnerships
PSD	Private Sector Development
RED	Rural Economic Development
RWSS	Rural Water Supply and Sanitation
SAE	Strategic Environmental Assessment
SDLLG	Support to Districts and Local Level Governments
SLIP	School Level Improvement Program
SME	Small and Medium Size Enterprises
SSM	Secretary’s Staff Members
TCF	Technical Cooperation Facility
TVET	Technical and Vocational Education and Training
UK	United Kingdom
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development
VET	Vocational Education and Training
WASH	Water, Sanitation and Hygiene
WCO	World Customs Organisation
WEF	World Economic Forum
WB	World Bank
WTI	World Trade Institute
WCO	World Customs Organisation

Summary National Indicative Programme (NIP) Papua New Guinea 2014-2020

Papua New Guinea (PNG) is a low middle income country and the biggest economy in the Pacific region, with a landmass of 462 820sq km, a population of over 7 million people (as per the latest census of 2011), and an annual GDP of over USD 15 billion (2012), representing respectively around 90% of the landmass and between 75% and 80% of the population and economy of the whole Pacific region.

PNG is worldwide one of the very few countries that has been experiencing more than 10 years of consecutive economic expansion, with an average GDP growth of 6% per cent per year. In 2014, the economy is expected to grow again by 6.2 %. Blessed with great natural resources (e.g. plentiful natural gas and more modest reserves of oil, gold, copper and other minerals, forests and fisheries, notably tuna, as well as areas of productive agricultural land), PNG economy is still dominated by primary production. In spite of uninterrupted economic growth, however, PNG is not on track to meet any of the MDGs, with one of the highest rates of child and maternal mortality in the Asia-Pacific region, and lowest rates of school attendance and literacy, more reflective of a low income country.

The Government's strategies are particularly focused at improved economic development and prosperity in rural areas, which have been lagging behind since Independence in 1975 and where about 85% of the population lives. All government's sector strategies, and thus EU's support aligned to these, are contributing to this goal.

PNG's development priorities are laid down in the: Papua New Guinea 'Vision 2050', Papua New Guinea Development Strategic Plan (PNGDSP) 2010 – 2030 and the Mid Term Development Plan (MTDP) 2010 - 2015. PNG 'Vision 2050' describes the government's vision and policies for development and shared prosperity. An addendum to the PNGDSP 2010-2030 was endorsed at the end of 2013, and formalised a "shift in Development Paradigm" towards Responsible Sustainable Development. The government's policy is more focused on moving from "brown" development to "green" development going beyond the sole extraction and sale of natural resources, energy and minerals and help diversifying the economy. This strategy includes greater attention to sustainable agriculture, fisheries and tourism. This will be reflected also in the review of the Mid Term Development Plan (MTDP) 2014 – 2017, currently being finalised. The MTDP details sectors' activities and resource envelopes' distribution and provides a performance and monitoring framework for programming.

Assistance under the 10th EDF concentrated on two focal sectors: support to rural economic development and support to human resource development. The aim of the National Indicative Programme under the 11th EDF is to contribute to poverty reduction and improved livelihoods through a more equitable and broad based sustainable development, in line with PNG's development plans.

The indicative allocation to Papua New Guinea will be EUR 184 million, subdivided as follows:

1. Rural Entrepreneurship, Investment and Trade	EUR 85 million	46.1% of total
2. Water, Sanitation and Hygiene	EUR 60 million	32.6% of total
3. Education	EUR 30 million	16.1% of total
Support measures	EUR 9 million	4.8% of total
Total NIP allocation	EUR 184 million	100%

The choice of three intertwined focal sectors reflects the need for an integrated approach to support PNG structural socio-economic transformation. Focus will still be on rural areas where the majority of the population lives, peri-urban and on poor coastal areas.

Under the first focal sector, the EU will scale up support to stimulate rural entrepreneurial activities, trade and investment along the value chain, including value chain finance and addressing key impediments to business, thus facilitating access to markets for small rural and coastal entrepreneurs and employment creation. Infrastructure benefitting rural areas will be part of the assistance as it is vital both for creating increased market access opportunities in rural and coastal livelihoods and for the improvement of delivery of public goods; renewable energy will also be covered under this focal sector. Assistance to provision of basic services will continue, with a focus on water and sanitation and hygiene (WASH) and education, the second and third focal sectors respectively, building on lessons learnt from the previous EDF. Support to education will include a stronger focus on Technical and Vocational Education and Training (TVET). EDF grant funds may be used through blending mechanisms to attract, leverage and multiply the total investments required for the implementation of 'Vision 2050' and its development plans, particularly for the first focal sector but also for WASH. In this context, a reinforced cooperation with the European Investment Bank (EIB) in PNG is being put in place. Also, the NIP foresees measures to support and accompany the formulation and implementation of the actions and for institutional strengthening. Support to Civil Society Organisations and non-State actors will be streamlined in the three focal sectors.

PAPUA NEW GUINEA – EUROPEAN UNION

NATIONAL INDICATIVE PROGRAMME (NIP)

For the period 2014 - 2020

1.1. Strategic objectives of the EU's relationship with Papua New Guinea

The overall framework of EU cooperation with Papua New Guinea (PNG) in the context of the support to be provided under the 11th EDF (2014 – 2020) is based on the global objectives of the EU-ACP cooperation under the revised Cotonou agreement, PNG's own national policies, development strategy and implementation plans, the 'European Consensus on Development', 'Busan Partnership for effective development cooperation' and guiding principles of the 'Agenda for Change' for greater aid effectiveness and impact. The EU relationship with PNG has evolved into a full partnership in the areas of trade and development cooperation. Strategic objectives are to promote sustainable inclusive development and the progressive integration of PNG into the world economy, thus ultimately leading to poverty eradication. The strengthened EU relationship with PNG will also aim at building stronger political relations and support to good governance and human rights, as well as addressing 21st century challenges, such as water and sanitation, education and energy. A more focused approach will be adopted in the joint EU-PNG development cooperation, with a close alignment to PNG's priorities, and in coordination with the other development partners. As noted in the most recent Commission Communication on the financing of poverty reduction and sustainable development beyond 2015¹, EDF grants will also be used for leveraging and multiplying investment through 'blending' mechanisms.

The 'Pacific Plan for Strengthening Cooperation and Integration' (2005) outlines the objectives for the cooperation in the region until 2015, in four main areas: economic growth, sustainable development, governance and security. The Commission's Communication 'EU Strategy for a strengthened partnership with the Pacific' (2006)² and the Joint Communication (High Representative/Commission) 'Towards a renewed EU-Pacific development partnership' (2012)³, provide the policy response to the challenges identified in the Pacific Plan. Enhanced political dialogue, strengthened trade relations and increased and more targeted development assistance are the means to implement the strategy.

PNG's development priorities are laid down in the following key strategic documents: Papua New Guinea 'Vision 2050', Papua New Guinea Development Strategic Plan (PNGDSP) 2010 – 2030 and the Mid Term Development Plan (MTDP) 2010 - 2015. The Alotau Accord (2012) formalises the government's priorities and provides a platform for action. It includes also a commitment to review the MTDP to ensure that it is aligned with the annual budget cycle and costs of the key interventions budgeted for. PNG 'Vision 2050' describes the government's vision and policies for development and shared prosperity. PNG Development Strategic Plan 2010 – 2030 outlines the following key enablers to be given the highest priority for reform: addressing the supply side constraints and expanding productive capacity of the economy, incl. encouraging investment in agriculture and fisheries and other renewable sectors, encouraging competition, education, transport and the provision of key public utilities such as electricity, clean water and sanitation. Good public sector management is recognized as a key underlying factor for any progress to be made in any of the key enablers. The MTDP details sectors' activities and resource envelopes' distribution and

¹ COM (2013) 531, 16 July 2015

² COM (2006) 248, 29 May 2006

³ JOIN (2012) 6, 21 March 2012

provides a performance and monitoring framework for programming. Through NEC Decision 347/2013, a review and update of the PNGDSP 2010-2030 was endorsed at the end of 2013, and approved a "shift in Development Paradigm" towards Responsible Sustainable Development. This will be reflected also in the Mid Term Development Plan 2014 – 2017, currently being finalised.

According to the Asian Development Bank (ADB), PNG is experiencing more than 10 consecutive years of economic expansion, with an average GDP growth of 6% per year, and maintained its position of one of the fastest growing economies in the Asia-Pacific region. About 40% of the population is under the age of 15. A highly productive workforce and sustained inclusive economic growth will be essential to achieve the objectives of the PNGDSP. Economic growth in the first half of 2013 has been slower than expected and dropped to approximately 5%. GDP growth is projected to increase to 6 % in 2014 with LNG exports starting in mid-year, and to 21% in 2015 as a result of the first full year of LNG exports.

In spite of uninterrupted and increasing economic growth, PNG is not on track to meet any of the MDGs, with one of the highest rates of child and maternal mortality in the Asia-Pacific region, and lowest rates of school attendance and literacy, more reflective of a low income country. PNG economy is still dominated by primary production. Some 15% of PNG's primary rainforests were lost between 1970 and 2002, while a further 9% were degraded. Research suggests that commercial logging and subsistence agriculture are the main driving factors. PNG is, after Malaysia, the second largest exporter of tropical timber and the export of round logs has indeed peaked in 2011 due to 'Special Agricultural and Business Leases'. The objective under the PNGDSP is to move from primary production to commercialisation through the promotion of downstream processing activities. Positive spin off effects have been generated by the Liquefied Natural Gas (LNG) project on other sectors of the economy, but they are decreasing because the LNG investment phase is coming to an end. Long term government's policy is now centred on the renewable sector, including fisheries, tourism and agriculture, and there is increasingly a shift towards promoting economic diversification and a more equitable distribution of benefits and opportunities, including gender and youth, at the same time with greater attention to minimising the risks for the environment for the transition to a green economy. The main pressures on the environment are the land use change resulting in the alteration of eco-systems with attended reduction in biodiversity, risk of soil erosion and run-off to water bodies; overuse of resources by the 85% of the population reliant on subsistence activities for their daily needs due to population growth; and unsustainable use of resources, particularly within the forest and fisheries sector. According to the Addendum to the PNGDSP 2010-2030, Responsible Sustainable Development, pillars 5, 6 and 7, of Vision 2050, which includes strategic planning, integration and control, environmental sustainability and climate change, spiritual, cultural and community development, is being elevated and is becoming a guiding principle for any government decision. An inclusive and innovative green economic growth platform for sustainable energy and to mitigate the effects of climate change is being established. Greater attention will also be given by government to population planning.

The Government's strategies are particularly focused at improved economic development and prosperity in rural areas, which have been lagging behind since Independence and where about 85% of the population lives. All government's sector strategies, and thus EU's support aligned to these, are contributing to this goal.

A cross-cutting feature of the planned support will be mainstreaming gender equality and women's empowerment in all national and sectoral policies and legislation. Family and sexual violence in PNG is widespread and has a devastating impact on the lives of individuals, families, and communities. For example, 65% of women and girls are subject to physical and sexual violence by one or more male family members, and almost half of all cases of violent injuries in PNG are

inflicted on adult women (aged 26-55yrs). Detailed gender analysis will be done during the identification of the specific actions. Special consideration will be given to support peace and stability in the country, including the peace process in Bougainville and any other area where a special need would arise, through interventions under the focal sectors and measures in favour of civil society, as appropriate.

Assistance under the 10th EDF concentrated on two focal sectors: support to rural economic development and support to human resource development. An increased pace of implementation than the 9th EDF has been experienced and catching up is in progress. However, some delays of the 10th EDF implementation will have to be taken into account when deciding the implementation modalities for the 11th EDF.

Under the 11th EDF, the EU will support country reforms in areas that have a strong multiplier effect, in line with the 'Agenda for Change' approach. For reforms to be successful, five key policy and institutional issues need to be addressed through an integrated approach: 1. Promoting a conducive business environment, 2. Ensuring market access and regional integration, 3. Investing in backbone infrastructure, 4. Establishing sound regulatory and institutional frameworks, and 5. Investing in human capital. The choice of three intertwined focal sectors reflects the need for such an integrated approach to support PNG structural socio-economic transformation. Focus will be on rural areas where the majority of the population lives and on poor coastal areas. The EU will scale up support to stimulate rural entrepreneurial activities, trade and investment along the value chain, including value chain finance and addressing key impediments to business, thus facilitating access to markets for small rural and coastal entrepreneurs and employment creation. Rural infrastructure development will still be part of the assistance as it is vital both for creating increased market access opportunities in rural and coastal livelihoods and for the improvement of delivery of public goods. Assistance to provision of basic services will continue, with a focus on water and sanitation and education, building on lessons learnt from the previous EDF. Support to education will include a stronger focus on Technical and Vocational Education and Training (TVET). EDF grant funds may be used through blending mechanisms to attract, leverage and multiply the total investments required for the implementation of 'Vision 2050' and its development plans, particularly for the first focal sector but also water and sanitation. In this context, a reinforced cooperation with the European Investment Bank (EIB) in PNG is being put in place.

1.2. Choice of sectors

Stimulating Rural Entrepreneurship, Investment and Trade

To develop and unleash the productive and employment potential of the rural economy, the EU will scale up support to stimulate small and medium-scale entrepreneurial activities and investment in the rural economy while increasing trade opportunities for rural and coastal entrepreneurs. The focus will be on boosting rural production and rural-urban market flows including potential export markets that benefit small scale farmers. Facilitation of farmer to market linkages will be in combination with improving the SME business environment and financial inclusion. In parallel, EU blending support will leverage investment in sustainable rural energy and rural infrastructure aimed at improving rural-urban connectivity of poor, under-served rural, peri-urban and coastal areas. Through improved access to and quality of services and infrastructure and better performing public financial management systems, larger shares of the populations will have access to markets. In line with obligations of the EU-PNG interim Economic Partnership Agreement (i-EPA)⁴, EU will

⁴ The i-EPA maintains and improves PNG's preferences in the EU market for their main exports. Originally these preferences were granted under the Cotonou Agreement but expired on 31 December 2007. The i-EPA provides for improved Rules of Origin notably for processed and preserved fish, mainly canned tuna (global sourcing). Provisional application of the agreement for PNG started on 20 December 2009. The European Parliament ratified the agreement ("consent") on 19 January 2011, while the National Parliament of Papua New Guinea ratified it on 25 May 2011.

cooperate closely with the government to facilitate the implementation of the agreement at national level, addressed through projects funded under the regional programme.

Infrastructure development

Government launched in July 2013 a 20 year National Transport Strategy for establishing a transportation network that links all districts, with a rolling 5 year investment plan. With its dispersed population and rugged geography, enhancement of transport infrastructure networks/airports/ports and coastal shipping services throughout the country is particularly vital to provide access to services and markets to rural communities, and will generate positive spin off effects on private sector development and ultimately help reduce poverty. The ADB is leading investment in PNG in this area, with USD 750 million made available so far. The PNG Energy Sector Development Programme provides the framework for intervention in energy, with the objective to increase targets of energy access, reliability and affordability. Approximately 90% of the population does not have access to electricity. To respond with a coordinated approach to such a challenge, the PNG Electricity Industry Policy was finalised in 2011, and an Electricity Management Committee established in the same year, to manage all electricity investment. A National Electrification Roll Out Plan for the next 20-25 years has been drafted with TA from the World Bank and its implementation is expected to start in 2014, together with the approval of the Third Party Access Code that provides the necessary regulatory framework for the electrification. PNG lacks funding necessary to reach its target of 70% of the population to have access to electricity by 2030, which implies huge works to maintain and rehabilitate generation, transmission and distribution energy networks. The need is particularly big for rural electrification, where EU will provide support, as it appears less attractive for private sector investment than national grid expansion projects in key centres. EU will contribute to government's efforts towards renewable energy production e.g. hydro, solar, biomass and geothermal.

Both improved road transport and energy are critical factors for stimulating rural entrepreneurship and productivity and improved market access (small businesses are particularly affected by bad roads) but also for improved delivery of public goods.

Any intervention for improved access to and sustainability of transport infrastructure and energy must be undertaken in an inclusive and environmentally-friendly way.

Value chain development

Agriculture development is at the hearth of government's strategies and of the National Agriculture Development Plan 2007-2016 (NADP) which are particularly focused at improved economic development and prosperity in rural areas, where about 85% of the population live. Value chain development is an important tool for enhancing the performance of the agricultural sector, where PNG retains its comparative advantage and a big potential for growth. Small cash crop agriculture contributes to over 30% of GDP, with 70% of the population dependent on subsistence agriculture. Upgrading value chain support services "from farm to fork" will contribute to increased productivity and economic return in rural areas and at the same time to increased quality of products at cheaper prices for the benefit of the consumers. 85% of the population does not have access to finance, the Highland Region having the highest percentage at 91.9 %, followed by the Momase Region at 82.3 %. In order to reduce cost and risk of financing and improve efficiency and repayments, value chain finance will be used and financial literacy promoted at regional and community level. Mechanisms to address financial security issues and collateral as well as monitoring mechanisms to keep track of the investment will be part of the approach. Market access ICT services and innovations will be used to improve access to information e.g. to provide information on pricing of agricultural products, weather forecasts, fertilisers, chemicals or pests and for connecting to suppliers, buyers or logistics providers. Value chain development support services could be expanded potentially to fisheries or tourism for the benefit of poor coastal populations.

Conducive SME Business Environment

According to the Ease of Doing Business Report 2014 *overall classification*, PNG ranks 113th across 189 economies. The government has not yet created a regulatory and business environment conducive to operating a business. The biggest improvements in recent years relate to economic & political stability, variable exchange rate, inflation, interest rate and to some extent in law and order (albeit that it remains the more serious impediment); however, overall there has been very little improvement in the business environment in the past 10 years, and particularly regarding corruption, competition, state of telecommunications, transport and electricity infrastructure, availability and cost of skilled and unskilled labour, cost of inputs, access to land and land compensation claims, quality and access to finance and banking services, company tax rate, inadequate subsidies/tariff support and GST, and there certainly is considerable anxiety in the private sector over potentially changing rules related to foreign ownership in businesses, prospective export restrictions and taxes, and other proposed trade interventions, albeit that the current tariff rates are now generally low. In addition, National Investment / Development Budget is increasingly being decentralised to provinces, districts and local level governments, which have deficient capacity for planning, management and accountability and will be an enormous challenge for the currently weak Public Financial Management (PFM) systems. As a result, current SMEs contribution to the economic sector is estimated at only about 6%. 94% of economic activities are informal. According to the PNG Investment Promotion Agency (IPA) there are currently 49,500 registered operating SMEs, which formally employ about 291,000 people (out of an economically active workforce of just over 3 million). It is worth noting that more than 49,500 SMEs have been registering with IPA over the years, but a key issue is the capacity of entrepreneurs to stay in business, have the SME grow and avoid bankruptcy. The Independent Consumer & Competition Commission (ICCC) plays an essential role in enforcing competition, fair trade and consumer protection regulations.

Proposed interventions under this focal sector will contribute to improvement of the business environment and facilitate business to integrate sustainability and equity concerns by addressing issues of weak regulatory environment, competition policy, financial literacy and business skills, governance and public accountability (PFM) at national and sub-national levels, including procurement processes, and competitive and transparent taxation/fiscal and licensing, and land management and allocation arrangements, but providing adequate longer term security of tenure and investment. Improvements in these areas, particularly to strengthen opportunities throughout the supply chain, starting with improved access to markets, skills and other inputs, will facilitate creation of a more conducive environment for businesses, especially small businesses, to allow positive spin off effects for a much larger share of the population, again with a focus on populations living in rural and poor coastal areas who currently have limited access to markets and jobs.

Rural Economic Development (RED) Programme II (EUR 32 million under the 10th EDF) will provide support to rural communities in Provinces to expand their market linkages and encourage sustainable management of natural resources. It will improve the business environment, and will facilitate the access to information and knowledge on improved and new technologies and agricultural best practices. It also aims to improve rural infrastructure and access to financial services for the agricultural value chain. Support to PFM was provided through the Support to Districts and Local Level Governments (SDLLG) Project (EUR 15 million under the 9th EDF). The project supported initiatives in the area of PFM from central agencies that aim at improving PFM at sub-national level. Four projects have been funded, in coordination with Australia, including support to the Central Supply Tender Board & the Auditor General Office. Continuing and scaling up work in this area will be vital to create a more conducive environment for trade and businesses.

Water, sanitation and hygiene

An estimated 4.2 million inhabitants (61 % of the population) do not have access to safe water and 3.8 million (55 %) do not have access to improved sanitation. PNG is also ranked low in terms of access to clean water and safe sanitation in the Pacific Region and coverage rates are declining due to population growth. The Millennium Development Goal (MDG) targets for water supply and sanitation are out of reach. Already, diarrhoea and water related diseases are leading causes of mortality in PNG, especially young children, and is posing a significant public health threat, as demonstrated during the cholera outbreak of 2009-10 and a recent new surge in 2013. The need for access to clean water and sanitation is recognised in the Papua New Guinea Vision 2050, where government seeks to increase access to clean water from 39 % to 100 % of the population by 2050. An interim goal of 47 % of the population having access to improved water source and 51 % to improved sanitation in 2015 is defined in MTDP 2011-2015. A second goal of the MTDP is that 50 % of education institutions have access to safe water and improved sanitation by 2015. These targets are very ambitious, but progress could be achieved via Public Private Partnerships (PPP). Private sector engagement with the government to invest in the expansion of water and sewerage system, especially in the urban centres could be explored via blending mechanisms. The vast majority of the population, however, does not have the capacity to pay for services of clean water and sanitation and sustainability of new or expanded schemes will need to be carefully considered.

Under the 9th EDF, the EU has supported the government to improve health of rural people through improving water supply and sanitation in the rural areas (EUR 25 million). In an innovative approach in the context of PNG, the RWSS project combined provision of water with hygiene awareness trainings and sanitation. Careful selection and close partnership with Non State Actors and a strong sense of ownership and commitment by the rural communities have contributed to sustainability. Complementary to this support was provision of piped water in three district towns (EUR 4.9 million). It has been demonstrated that improved water, sanitation and hygiene (WASH) leads to reduced pertinence of water borne disease affecting particularly mothers and children. Cross-cutting issues include reduced healthcare costs, decreases exposure of women and girls to sexual harassment and assault, increases girls' attendance to schools and women's levels of education. Collection of water at water points and the use of latrines and of washing and bathing facilities is often associated with a high risk of sexual harassment, rape and violent infliction. Women and girls are especially exposed and vulnerable to such risk, and appropriate measures need to be considered and integrated in the planning and implementation of all WASH activities. Experience from previous EU funded project has demonstrated that improved WASH results in reduction of women's time spent looking for water and more time spent on productive activities. Elderly or disabled people particularly benefit from improved WASH in their respective communities and towns. In light of the serious nature of violence and the extent to which it burdens society in general in PNG, integration of concrete and specific protection measures, with appropriate standards, must be mainstreamed throughout all EU financed WASH projects.

Education

Education remains a key priority for the government, which has requested continued support from the 11th EDF to the education sector, including universal free education. Substantial support to education has been provided under the 10th EDF (EUR 39 million). Due to the back loading of the 10th EDF implementation, projects identification and formulation in this focal sector will only start once the 10th EDF projects are being implemented and absorption capacity in the sector is confirmed.

In recent years, net enrolment in basic education (elementary and primary) has risen from 52.9% in 2007 to 74.9% in 2010 and the achievement of universal free education will be a major milestone in

the development of PNG. Retention to Grade 8 was over 60% in 2011; 22,000 teachers have been added to the national roll since 1993. Policy documents, however, continue to report weak access to quality education and training which poses bottlenecks to productivity growth and development. Despite positive trends towards Universal Basic Education, many children still do not complete basic education and the majority do not obtain educational qualifications and marketable skills. Particularly problematic remains gender equity especially in rural areas and equal opportunities for girls after Grade 8. The MTDP aspires to a completion rate of 49.4 % for grade 8 leavers in 2015, and the target for 2020 is 77.5 %. The Department of Education is increasingly addressing coordination of and technical support to education and training through policy, planning and research, standards and guidance, curriculum development, national examinations and teacher development. Institutional capacity is variable, in particular at district levels. However, coordination efforts often remain focussed on national stakeholders and primary education as the government lacks the capacities to effectively include stakeholders at provincial levels and extend efforts to secondary, technical and vocational training. The MTDP foresees the development of a vocational training system by 2015 to pilot the provision of technical training by colleges to secondary school students as part of their secondary studies and to review how best to develop high quality technical skills through secondary schools and technical training institutions. In tertiary education, the government aims to expand to 2,000 places in training institutions and vocational colleges and seeks to engage with the private sector. The Human Resource Strategy will provide a framework to better match training and skills requirements. Cooperation between the National Training Council, vocational colleges, private sector, industrial associations and business chambers will be needed to improve technical qualifications of youth, and in particular girls, and to facilitate insertion into labour markets. Schools and the education system play an important role in addressing issues related to violence and EU supported projects within the education sector will seek to incorporate concrete measures to address these problems.

2. Financial overview (indicative amounts)

Rural Entrepreneurship, Investment and Trade	EUR 85 million	46.1% of total
Water, Sanitation and Hygiene	EUR 60 million	32.6% of total
Education	EUR 30 million	16.1% of total
Support measures	EUR 9 million	4.8% of total
Total NIP allocation	EUR 184 million	100%

3. EU support per sector

3.1 Rural Entrepreneurship, Investment and Trade (indicative amount EUR 85 million)

3.1.1 The following overall and specific **objective** will be pursued:

The **overall objective** is to improve sustainable and inclusive economic development and job creation, thus leading to poverty reduction

The **specific objective** is to enhance rural productive employment and entrepreneurship in, as well as rural-urban connectivity of, poor under-served rural and coastal areas.

3.1.2 For each of the specific objectives the main expected **results** are:

1. Infrastructure benefitting rural areas is upgraded, including improved access to sustainable transport and renewable energy;

2. Value chain development support services for non-extractive industries and processing of raw materials are strengthened, including development of value chain finance, development of market access ICT services and delivery of training in entrepreneurship/financial literacy, for increased market access opportunities in rural and poor coastal livelihoods;

3. Business environment for non-extractive industries and processing of raw materials is improved through strengthened regulatory environment and competition and trade facilitation.

3.1.3 The main **indicators** for measuring the aforementioned results are contained in the sector intervention framework attached in Annex. The indicators are proposed in agreement with the government.

3.1.4 **Donor coordination and policy dialogue** are:

The EU's intervention will be aligned to PNG's priorities and carried out in close coordination with other donors. On infrastructure development, development and investment banks have been leading, particularly the ADB for infrastructure, but also the World Bank and PNG National Central and Development Banks, with support through Australia and NZAid - the latter especially on geothermal for soft actions. The ADB has made available USD 1 billion investment for both transport infrastructures – USD 750 million including all sub-sectors – and energy in the range of USD 150-200 million, over a 10 year period. The World Bank has been providing key support in infrastructure and energy development, e.g. through the Road Maintenance and Rehabilitation Programme, now at its second phase, and in the drafting of the National Electrification Roll Out Plan, which includes hydro and other renewable energy projects. It is worth noting that particularly in the case of geothermal energy, which imply a sizeable high risk investment upfront and long term benefits, necessary investment can better be leveraged through grants. Intervention on trade facilitation will be coordinated with support from the World Customs Organisation (WCO), AusAID technical assistance at PNG Customs and the ADB regional trade facilitation project. Trade support is being provided by Australia through officials and technical assistance in PNG Departments, NZAid and USAID on agribusiness and addressing legal and regulatory aspects. Relevant interventions from the ADB include a Microfinance Expansion Project and Private Sector Development Initiative. The latter serves as an implementing agency coordinating implementation of multi-donors PSD related interventions in areas such as financial inclusion, business law and regulations competition and public - private partnerships. Cooperation with the EIB is being scaled up, seeking its involvement for 'blending' for infrastructure development including energy but also for other intervention - possibly including risk/guarantee facilities - for private sector development in PNG. Continuous dialogue (for all relevant sectors) exists with France and UK, the only EU Member States represented in PNG (they have no development assistance programmes).

3.1.5 The government's **financial and policy commitments** are:

PNG Government's planned budget for Economics & Agriculture sectors during the period of 2014-2017 is expected to comprise PGK 3.122 billion. The government is shifting its focus from non-renewable sectors, currently contributing to over 80% of GDP, to promoting renewable, including agriculture, fisheries tourism and other services, for a more equitable distribution of resources and opportunities amongst provinces and job creation, starting from 2014 budget. It prioritises infrastructure development and energy access, also regarded as key enablers for substantial progress in stimulating entrepreneurship and investment and facilitate trade. The Transport Sector Policy was launched in July 2013. There is an Electricity Industrial Policy since 2011 and the target is to attain 70% access to electricity by 2030. This can be achieved through hydropower, but also geothermal power and other renewable energy sources. The National Electrification Roll Out Plan was be presented at an energy event in December 2013 and its

implementation is expected to start in 2014. There is no policy, nor any legislation on geothermal in PNG, but a draft should be ready in the beginning of 2014, on time for a round table with potential donors and investors to take place in 2014. Government recognises the key role of PNG Customs for revenue collection and for trade facilitation and the PNG Customs Service Plan is aligned to the national development plan. Government's allocation for trade, including trade facilitation, is a bit less than EUR 2 million from 2013 to 2015. On MSMEs, extensive consultations with stakeholders have recently taken place to update the national SME Policy and come up with a master plan and a national definition of SMEs (incl. micro enterprises), with the aim to have the draft ready by December 2013. 2030 targets are: reach 500 000 SMEs and create 2 million jobs. Government has made a big pledge in terms of financing for MSMEs. The challenge would be putting in place appropriate mechanisms to guide and account for the disbursement of funds.

3.1.6 Environmental and climate screenings

All EU funded interventions will be subject to environmental and climate screenings to determine need for strategic environmental assessment, environmental impacts assessment and/or climate risks assessment. The application of the screening questionnaires based on the applicable EU guidelines (<http://capacity-4dev.ec.europa.eu/public-environment-climate/documents>) will help to determine need for and scope and detail of any required assessment and will identify opportunities to better address environmental and climate change concerns in the project/programme formulation even if such assessment will not be needed.

3.1.7 The overall **risk assessment** of the sector intervention:

Until now, the development of SMEs in PNG has not picked up momentum also for absence of policy and for institutional issues. However, recent developments confirm Government commitment to come up with a draft policy and master plan before the end of 2013, which will provide the framework for coherent donors' engagement. After the recent confirmation of the shift of the trade functions back to Trade Commerce and Industry Department, national consultations on a trade policy have restarted, with the aim to have a trade policy formulated in 2014.

Concerning transport and energy, there is a clear framework and road map. However, for both transport and energy, there is a risk that works are delayed as a result of inadequate funding (necessity of substantial start up investment), access to and ownership of land and industrial capacity. These risks will be mitigated by developing partnerships through contribution agreement(s) with development banks / EIB experienced in carrying out these kinds of interventions and at using grants for leveraging private sector investment and loans. In order to mitigate the risk of delays in works as a result of landownership issues, a high level of involvement of the local communities will be sought, from the design to the implementation and monitoring of any intervention, as well as to foresee mechanisms for sharing benefits with communities, which is vital also for social and environmental suitability. Transport and energy system shall be designed to pose minimal environmental impacts and be resilient to extreme climatic events (flooding, land-slides, strong winds).

Weak PFM systems pose a risk for corruption. Accountability, transparency and expenditure levels are generally low, especially at sub-national levels. This risk will be mitigated through increased support to strengthening PFM systems at national and sub-national levels. An update of the latest PEFA study is intended to be carried out and commitment sought from government to publish it and implement it. The Country's PFM system will be undergoing a PEFA assessment through the application of the PEFA Public Financial Management Performance Management Framework. The

government through the Department of Finance is taking the lead to re-assess, harmonize and strengthen existing public financial management business processes in implementation and service delivery of development efforts consistent with national plans and policies, national budget, national spending and reporting. The Department of Finance will be leading a specialized technical team from Central Agencies, Internal Revenue Commission and the Auditor General's Office in conducting the PEFA Self Assessment. The 10th EDF ICB II programme will support the finalization of the PEFA study and ensure follow up at national and sub-national level.

The availability of statistical data for tracking economic and social developments in PNG needs to be enhanced. The government is fully aware of this challenge and has taken measures to reinforce the National Statistical Office of PNG, and has started a pilot project for electronic mapping of population statistics in Morobe Province.

A big risk is the limited capacities available at national and even more at sub-national levels and resulting in slow implementation and disbursement/poor absorption. To mitigate this, systematic checks and monitoring measures are being put in place via support to the NAO, support in the pipeline via the 10th EDF (ICB II) and a TCF - which will include technical assistance that would help prepare the ground for 11th EDF follow on interventions, and also through close coordination and regular dialogue with other key development partners.

3.2 Water Supply, Sanitation and Hygiene (WASH) (indicative amount EUR 60 million)

3.2.1 The following overall and specific **objectives** will be pursued:

The **overall objective** is to improve the living conditions through contributing to increased coverage for water and sanitation and improved hygiene behaviour in line with a national WASH policy.

The **specific objectives** are twofold:

- to enable a healthier and safer environment particularly for women and children, reducing the impact of water borne diseases and hygiene related illnesses, and
- to improve governance and quality of service delivery in the WASH sector.

3.2.2 For each of the specific objectives the main expected **results** are:

1.1 Increased access to safe water and improved sanitation in schools and clinics

1.2 Increased access of population in peri-urban settlements, provincial and district towns to safe water and improved sanitation

1.3 Increased awareness of population on importance of hygiene and sanitation, and reduction of frequency in number of cases of diseases with oral – faecal transmission

2.1 Implementation of WASH Policy with an initial focus on strengthening the institutional framework and enabling environment

2.2 Improved planning, monitoring and evaluation of WASH service delivery including community service obligations

3.2.3 The main **indicators** for measuring the aforementioned results are contained in the sector intervention framework attached in Annex.

The indicators are proposed in agreement with the government. In absence of a WASH policy, the official source of coverage data for water and sanitation comes from the 2009-10 Household

Income and Expenditure Survey which does not disaggregate urban and rural data. Process indicators are proposed for results under specific objective 2. It is understood that "access to safe water and sanitation" in schools and clinics would entail separate facilities for women and men. Data will be gender disaggregated, where possible.

3.2.4 Donor coordination and policy dialogue are:

With exception of EU support under the 9th EDF and few isolated projects funded by different development partners the **WASH sector** in PNG has been an orphan sector which suffers from fragmentation, lack of clarity of roles and gaps in responsibilities. Different policy documents, including the Medium Term Development Strategy (2011-2015) or National Health Plan 2011-2020 recognise the low access rates to WASH and the links between WASH and public health issues.

At current, no specific policy or operational plan has been developed and consequently, no donor coordination or policy dialogue forum exists for WASH. Targets as stated in the MTDP do not distinguish between urban and rural areas but it foreseen to have 47 % of the population having access to improved water source and 51 % to improved sanitation in 2015. Water PNG Strategic Master Plan 2012-2030 translates government's targets into 100% coverage of access to safer water and sanitation in all provincial towns and 85% of all districts towns by 2030. To address the lack of coordination of stakeholders and fill the leadership gap on service delivery in WASH, a government WASH task force was established in 2008. In 2011, a National Water Supply, Sanitation and Hygiene conference was organised by the EU funded Rural Water Supply and Sanitation (RWSS) project with view to launch a more strategic and evidence based discussion amongst stakeholders. In 2013 the WASH task force was re-vitalised to clarify institutional arrangements and prepare a WASH policy. A WASH working group will need to be established to enhance the dialogue with government and development partners to improve alignment of donor support to the WASH policy and to conduct annual reviews of progress in implementation. While leadership and roles in this group will have to be discussed, the EU is well placed to chair or co-chair this group given its past involvement in WASH under the 9th EDF and inclusion of WASH as focal sector under 11th EDF. Possible members of the group will include World Bank, Australia, UNICEF, ADB, EIB and JICA.

3.2.5 The government's financial and policy commitments are:

Despite higher government spending in recent years, investment in WASH remains low at around 0.3 % of the GDP, which is well below the internationally recognised minimum of 1 %. The World Bank has recently conducted a study on service delivery of WASH, estimating annual investment needs of EUR 80 million and additional allocations for operational maintenance of existing systems of EUR 12 million. Public investments are currently directed to few, large projects in urban areas.

The Department of National Planning is now taking the lead in developing a national WASH policy, including the development of comprehensive targets, and the Task Force. Institutional arrangements are being revised and it intended to establish a national WASH authority to i) identify priority areas, ii) build capacities of stakeholders at national and provincial level and iii) coordinate service delivery, panning, budgeting and monitoring. In preparation of the 11th EDF, the government has indicated that this sector is of highest priority and that government is seeking opportunities for joint funding of WASH programs.

3.2.6 A Strategic Environmental Assessment (SEA) will be carried out to assess environmental consequences, include climate change considerations of the WASH policy. The SEA will provide recommendations to feed back into the programming process and policy dialogue to optimise its environmental impacts (minimising negative effects and enhancing positive ones).

3.2.7 The overall **risk assessment** of the sector intervention:

A major risk related to intervention in WASH sector is lack of institutional clarity and absence of any framework or policy to guide the WASH sector. It is yet to be confirmed that the Department of National Planning will take the lead on the WASH sector and host the new National WASH Authority. To date, de-facto sector leader have been Water PNG and Eda Ranu, the two State Owned Enterprises and water utility providers; the National Department of Health, under its Environmental Health Division also has a stake in WASH.

The absence of a national policy poses another major risk. Given the absence of a national WASH policy, no annual or medium term targets exist, there is no investment plan or prioritisation mechanism in place. No standards for WASH systems have been developed and there is no coordination mechanism for contracting (investment into new systems), maintenance, training and capacity building (hygiene and software component of WASH), monitoring and data collection.

Weak PFM systems pose a risk for corruption; weak management capacities and delays in procurement are further risks identified for engagement in the sector.

To mitigate these risks, policy dialogue with the WASH Taskforce and the lead agency on WASH (Department of National Planning) and other stakeholders has to be re-enforced. Donor coordination mechanisms will be put in place to increase leverage of policy dialogue. Further, it is proposed to sequence support to the WASH sector by starting with a strong provision of technical cooperation to strengthen institutional arrangements, develop a comprehensive capacity-building plan for all levels (national, provincial, district) and improve sector coordination, data collection and monitoring. Subsequently, the scaling out of WASH service delivery in schools and clinics as well as peri-urban areas (settlements) in line with national policy will build on and further strengthen institutional arrangements.

Another risk is a possible deterioration of quality of water supply sources due to pollution.

3.3 Education (indicative amount EUR 30 million)⁵

3.3.1 The following overall and specific **objective** will be pursued:

The **overall objective** is to promote human resource development of through improving access to and quality of the education system.

The **specific objective** is to improve capacities at national and provincial level to enable better access to and quality of education for students in secondary vocational institutions.

3.3.2 For each the specific objectives the main expected **results** are:

1. Improved access to secondary and tertiary vocational institutions enables an increased number of post basic education students to acquire professional skills that allow for insertion into labour market.
2. Management capacity of TVET systems is improved through increased cooperation and coordination of stakeholders at national and provincial levels.

3.3.3 The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex. Special attention will be paid to facilitating access of women to VET, including for example provision of child care services or insertion of girls in

⁵ This needs to be read bearing in mind findings of a review in 2016-2017.

traditionally male dominated professions. The indicators are proposed in agreement with the government.

3.3.4 Donor coordination and policy dialogue are:

Development partners active in the education sector have agreed to align and harmonise support in line with government priorities and this agreement has been formalised via a Joint Commitment of Principles and Actions by government and development partners in mid-2012. A number of Technical Working Groups is looking at different aspects of sector performance. Decisions on policy and strategy development are discussed at Top Management Team and Secretary's Staff Members (SSM) meetings including the Education Sector Improvement Programme Steering Committee. Development partners meet on a monthly basis to share information and discuss policy messages which are passed on jointly in regular meetings with the Secretary of Education. At current the Education Partner group is co-chaired by Australia and UNICEF. For specific policy areas Technical Working Groups exist and development partners contribute to these Technical Working Groups and assist with institutional capacity development on request. Australia provides by far the largest development partner in education (currently AUD 55 million per year). Most donor support is directed to basic education and the EU has contributed with EUR 13 million from the 10th EDF. Governments' efforts to achieve universal free education are being recognised and complementary support could be explored under the 11 EDF. Less support is directed towards the TVET sector to which the EU has contributed EUR 26 million from the 10th EDF. Other development partners active in the Education Sector include the World Bank, JICA, NZAid, and UNICEF.

3.3.5 The government's financial and policy commitments are:

In the education sector, the Universal Basic Education (UBE) Plan 2010-2019, drawn from the National Education Policy (NEP) 2005-2014 is guiding progress in access, quality and management of education. A key government policy is the achievement of universal free education. National Education Plan is currently undergoing a Mid Term Review (MTR), with central and provincial consultation led by senior Department of Education management. A Sector Wide Master Plan is in preparation in Department of Education. MDG targets and indicators for education have been integrated into the sector framework within the MTDP. The government will focus on investment in training of teachers, rehabilitation of schools' infrastructure, investing in new classrooms, teachers' houses and dormitories, and a progressive reduction of school fees/ state contribution to tuition fees. To enhance transition of school leavers into labour markets, targeted interventions are foreseen to strengthen technical and vocational training and teachers' colleges, including the updating of the Labour Market Information system of 2010. Close cooperation with the private sector and to improve the trainings to equip students with skills needed in the labour market.

The Universal Basic Education Plan articulates the MTDP education policies through Annual Operational Financial Plans (AOFPs), though further alignment and harmonization is needed to focus efforts consistently on policy. According to Treasury PNG is strengthening links between education policy goals and the budgetary process with the aim of achieving a Medium Term Expenditure Framework (MTEF). The total allocation for education rose to PGK 1.2 billion in 2011, 14% of the national budget and the commitment remains high in the 2014 budget. However, the Department of Education repeatedly under-spends on development budgets indicating disbursement bottlenecks and problems with absorptive capacity. Similarly slow disbursement of school subsidies under the School Level Improvement Program (SLIP) and the Fee Free education policy have drawn public criticism, and reflect PNG's infrastructural challenges. Provinces, for example, enjoy autonomy in planning and spending (though not in raising revenue) and it is proposed to channel support to this level, in line with a national policy framework, to ensure funds reach beneficiaries.

3.3.6 No Environmental Impact Assessment or Strategic Environmental Assessment is foreseen, however, formulation and identification of specific projects will consider environmental sustainability if necessary. All EU funded interventions will be subject to environmental and climate screenings to determine need for strategic environmental assessment, environmental impacts assessment and/or climate risks assessment. The application of the screening questionnaires based on the applicable EU guidelines (<http://capacity-4dev.ec.europa.eu/public-environment-climate/documents>) will help to determine need for and scope and detail of any required assessment and will identify opportunities to better address environmental and climate change concerns in the project/programme formulation even if such assessment will not be needed.

3.3.7 The overall **risk assessment** of the sector intervention:

Weak PFM systems pose a risk for corruption. The main risk, however, is the limited capacities available at the Department of Education resulting in slow disbursement and poor absorptive, implementation and monitoring capacity. This risk is being mitigated by delaying identification of programs in the education sector until after the mid-term review of the 11th EDF; by that time 10th EDF projects will be well underway and lessons learnt could feed into the programming.

With regard to disaster management, any new schools should be located in safe areas which can be easily accessed so that they can serve as shelters for population affected by natural disasters (floods, land-slides, etc.)

4. Measures in favour of civil society

Support to Civil Society Organisations and non-State actors will be streamlined in the 3 focal sectors in addition to the use of funding from EU budget lines. Therefore, a separate allocation as such for support to civil society/ non-State actors is not foreseen. In supporting non-State actors, the EU may make use of article 15(4) of Annex IV to the Cotonou Agreement, which allows it to be the Contracting Authority.

5. B-allocation

No B-allocation is included in this NIP for unforeseen needs. This allocation is at EUR 0 until a need arises.

6. Support measures

6.1. Measures to support or accompany the programming, preparation or implementation of actions

A support facility (i.e. a Technical Cooperation Facility – TCF) of a proposed amount of EUR 1.8 million to accompany the formulation, preparation and implementation of actions is foreseen through a specific allocation. This will include Technical Assistance for identifying, formulating and implementing projects that could lead to blending resources, support for organisation of/ participation in training, workshops and seminars and ad hoc support to meet specific requirements. Support will further be provided to studies, including assessing prospects for budget support and for projects that may lay the ground for it, and in areas such as strengthening PFM and statistical capacity building.

It will also support further i) mainstreaming of gender including the identification of actions and gender disaggregated indicators and ii) the strengthening of risk analyses and the identification of mitigating measures in the preparation of new projects and programmes.

6.2. Support to the National Authorising Officer

An indicative amount of maximum EUR 7.2 million will be foreseen for support to the National Authorising Officer (NAO), also taking into account that the 10th EDF NAO support programme will run until 2017. Government foresees a stronger involvement of the Department for National Planning and Monitoring, the NAO, in preparing, implementing and monitoring implementation of EU funded programmes, and the utilisation of blending mechanisms, which are relatively new for the Department, will require further capacity strengthening. Building on lessons learnt from existing programmes in support to the NAO, EU support will be directed to further strengthen NAO's capacities to prepare, control the implementation and organise evaluation, audits and closures at finance administrative and contractual levels, of all EU funded interventions in PNG.

Attachments

1. Country at a glance
2. Donor matrix showing the indicative allocations per sector.
3. Sector intervention framework and performance indicators.
4. Indicative timetable for commitment of funds.

Attachment 1. Country at a glance

Land area	Population ⁶	Population density	Population growth	Urban Population (%)
462 820sq km	7.26 million (2012)	15.68 person /sq km	2.8 (average for 2010-2012)	12.5 (2011)
Life expectancy at birth (2011): 62 ⁷				
Youth (to or under the age of 21): 1.5 million ; 76% of the population is under 35 years old				
Human development index (rank and value): 156, 0466 ⁸				

ECONOMIC SUMMARY				
<i>Basic data</i> ⁹				
Country Rank: Low Middle Income Country (LMC)				
	2008	2010	2012	2013 (projection, if available) ¹⁰
GDP (million US\$)	8,010,370,370	9,480,047,959	15,653,921,367	
GDP per capita (US\$)	1223	1382	2184	
Real GDP growth (annual %)	7	8	8	5.5
Foreign direct investment, net inflows (BoP, current US\$) (million US \$)	-30,591,592	28,720,688	NA, (-309,197,041 in 2011)	
Gross public debt¹¹ (% GDP)	31.7	25.6	23.2	
External debt (%GNI)	14.5	10.3	NA, (9.4 in 2011)	
Inflation rate (%CPI)	10.8	6	2.2	6.5
Exchange PNG kina/US\$ (period-average)	0.370	0.375		
NEER (2000=100, end-period)	95	78.3		
REER (2000=100, end-period)	135.2	113.2		
<i>Structure of the economy</i> ¹²				
Agriculture (%GDP)			28%	
Industry (%GDP)			38.6%	
Services (%GDP)			33.4% (est.)	
<i>Public finance</i>				
General Government Tot Revenue (% GDP) ¹³			29.5	28.4
Net ODA (as % GNI)	3.8	5.5	NA, (5.1 in 2011)	
General Government Tot Expenditures (% GDP)			32.8	34.7
Fiscal balance (% GDP)	-2.2	0.7	-1.2	
<i>Trade</i> ¹⁴				
Exports of goods and services (% GDP)		104		
Imports of goods and services (% GDP)		51		

⁶<http://www.adb.org/sites/default/files/pub/2013/PNG.pdf>

⁷ <http://data.worldbank.org/indicator>

⁸ <http://hdr.undp.org/en/data/profiles/>

⁹ <http://data.worldbank.org/indicator>

¹⁰ ADB Asian Development Outlook 2013

¹¹ IMF World Economic Outlook database

¹² CIA World Fact-book

¹³ IMF World Economic Outlook database

¹⁴ EC Trade Fact Sheets

Current account balance/GDP				-29.5	-12.4
Ease of doing business (rank) ¹⁵ : 104 out of 185 economies					
Governance Indicators (2011): ¹⁶					
Voice and Accountability	47.9%				
Political Stability/Absence of Violence	19.3%				
Government Effectiveness	26.1%				
Regulatory Quality	33.6%				
Rule of Law	24.4%				
Control of Corruption	11.4%				

SELECTED SOCIAL INDICATORS RELATED TO MDGs ^{17 18}										
	1990	1996	1999	2000	2005	2006	2008	2009	2010	2011
Proportion of population below 1 \$ per day		35.8								
Population living below national poverty line (%)								28		
Prevalence underweight children < 5 years age					18.1					
< 5 mortality rate (per 1000 birth)	88.00									57.8
Infant mortality rate (per 1,000 live births)	64.3			64		57				44.8
Primary education completion rate									55.11	
Gender parity index in primary				0.86			0.89			
Maternal mortality ratio (per 100,000 live births)	390								230	
Proportion of birth attended by skilled health personnel	53.2					53				
HIV prevalence (% ages 15-49)	0.2							0.7		
Forest cover (% land area)	69.6								63.4	
Safe drinking water (% population)	33								40	
Basic sanitation (% population)	20								19	

¹⁵ <http://doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/PNG.pdf>

¹⁶ <http://info.worldbank.org/governance/wgi/index.asp>

¹⁷ <http://www.adb.org/sites/default/files/pub/2013/asia-pacific-regional-mdgs-report.pdf>

¹⁸ UN Post 2015 Development Agenda Country Consultations, Papua New Guinea 2013.

Attachment 2. Donor matrix

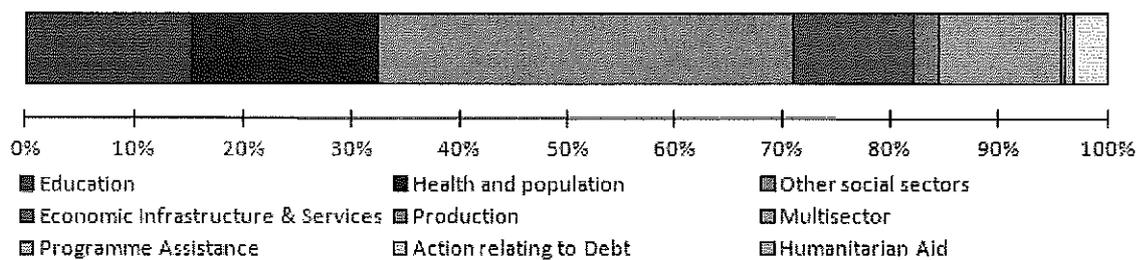
Papua New Guinea

Receipts	2009	2010	2011
Net ODA (USD million)	412	511	612
Bilateral share (gross ODA)	76%	83%	89%
Net ODA / GNI	5.2%	5.5%	4.9%
Net Private flows (USD million)	1 486	4 104	- 171

For reference	2009	2010	2011
Population (million)	6.7	6.9	7.0
GNI per capita (Atlas USD)	1 190	1 300	1 480

Top Ten Donors of gross ODA (2010-11 average)		(USD m)
1	Australia	449
2	Japan	38
3	EU institutions	35
4	New Zealand	25
5	AsDB Special Funds	14
6	IDA	13
7	Global Fund	10
8	UNDP	3
9	United States	3
10	Germany	3

Bilateral ODA by Sector (2010-11)



Sources: OECD - DAC, World Bank; www.oecd.org/dac/stats

Attachment 3. Template for Sector intervention framework

Baselines will be included in the Action Documents at the latest

Sector 1: Rural Entrepreneurship, Investment and Trade

Specific objective 1: is to enhance rural productive employment and entrepreneurship in, as well as rural-urban connectivity of, poor under-served rural and coastal areas

<u>Expected Results</u>	<u>Indicators</u> ¹⁹	<u>Means of verification</u>
1.1 Infrastructures benefitting rural areas is upgraded, including improved access to and sustainability of transport and energy	<p>1.1.1 Number of km of roads developed/repaired</p> <p>1.1.2 Km of inland waterways that became navigable for domestic freight and passenger transport</p> <p>1.1.3 Number of road safety courses conducted in rural areas</p> <p>1.1.4 Percentage of road safety courses conducted where at least half the people reached are women</p> <p>1.1.5 Percentage of households with access to electricity by 2020 (disaggregated by rural areas)</p> <p>1.1.6 MW generated from renewable energy sources</p> <p>1.1.7 Number of rural schools health posts electrified through renewable energy systems as a result of EU intervention.</p>	Projects studies and DTA, National strategy, EUD and donor's expertise and thematic reports
1.2. Value chain development support services are strengthened, including development of value chain finance, development of market access ICT services and delivery of training in entrepreneurship/financial literacy for increased market access opportunities in rural and poor coastal livelihoods	<p>1.2.1 Percentage people received access to finance by 2020, disaggregated by sex</p> <p>1.2.2 Number of entrepreneurship skills development training courses conducted at districts level</p>	Doing Business WB /IFC, Private sector survey, ILO Indicator

¹⁹ At present, no baseline data is available. Baseline data and targets will be defined during identification of specific projects.

	1.2.3. Number of entrepreneurs identified and disaggregated by sex;	
1.3 Business environment is improved through strengthened regulatory environment and competition and trade facilitation	<p>1.3.1. Number of SMEs</p> <p>1.3.2 Number of jobs created in SMEs</p> <p>1.3.3. Implementation status of business regulatory framework Milestone: Review of key elements of regulatory framework and competition policy framework completed</p> <p>1.3.4 Number of documents required, for export and import</p> <p>1.3.5 Average time for export and import</p>	Doing Business WB/IFC, WTI, Global Competitiveness Index (GCI- WEF), Private sector survey, ILO Indicator

Sector 2: Water Supply, Sanitation and Hygiene (WASH)

Specific objective 1: To enable a healthier and safer environment particularly for women and children, reducing the impact of water borne diseases and hygiene related illnesses in rural communities and urban settlements.

<u>Expected Results</u>	<u>Indicators</u> ²⁰	<u>Means of verification</u>
1.1 Increased access of population to safe water and improved sanitation	<p>1.1.1 % of schools with access to safe water and improved sanitation</p> <p>1.1.2 % of clinics with access to safe water and improved sanitation</p> <p>1.1.2 Number of communities without open defecation (= increased % of rural population has access to improved sanitation)</p>	Household expenditure survey, WASH database, Joint Annual Review of WASH coordination group

²⁰ It is understood that "access to safe water and sanitation" in schools and clinics would entail separate facilities for women and men. Data will be gender disaggregated, where possible. Any new installations will be in line with internationally accepted safeguarding standards. At present, no baseline data is available. Baseline data and targets will be defined during identification of specific projects.

1.2 Increased access of population to safe water and improved sanitation	<p>1.2.1 % of population has access to safe water</p> <p>1.2.2 Capacity (volume) of sewage systems</p> <p>1.2.3 Number of communities / settlements without open defecation (or increased % of population has access to improved sanitation)</p>	Household expenditure survey, WASH database, Joint Annual Review of WASH coordination group
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Specific objective 2 To improve governance and quality of service delivery in the WASH sector.

<u>Expected Results</u> ²¹	<u>Indicators</u>	<u>Means of verification</u>
2.1 Implementation of WASH Policy with an initial focus on strengthening the institutional framework an enabling environment and consideration of protection issues related to various forms of violence.	2.1.1 WASH Authority adequately staffed, trained and equipped to deliver WASH at scale in peri-urban, provincial district and rural areas using tailored and cost-effective approaches	Joint Annual Review of WASH coordination group
2.2 Improved planning, monitoring and evaluation of WASH service delivery including community service obligations	<p>2.2.1 Status of planning, monitoring and evaluation of WASH service delivery.</p> <p>Milestone 1: Budgets for WASH (urban, rural) are allocated according to criteria (or formula)</p> <p>Milestone 2: data on domestic and external funds budgeted and spent is available, audited and reported</p> <p>Milestone 3: Annual review by WASH sector partner group monitors WASH planning and performance in line with policy and investment plan.</p>	Joint Annual Review of WASH coordination group

Sector 3: Education

Specific objective 1 is to improve capacities at national and provincial level to enable better quality education for students in secondary vocational institutions

²¹ At present, no baseline data is available. Baseline data and targets will be defined during identification of specific projects.

<u>Expected Results</u>	<u>Indicators</u> ²²	<u>Means of verification</u>
<p>1 Improved access to secondary and tertiary vocational institutions enables an increased number of post basic education students to acquire professional skills that allow for insertion into labour market</p>	<p>1.1 Number of students (boys and girls) enrolled in secondary and tertiary vocational institutions (intake rate)</p> <p>1.2 Number of young people (boys and girls) receiving vocational guidance through labour market programmes</p> <p>1.3 Number of school facilities constructed and / or rehabilitated</p> <p>1.4 Number of teachers (male and female) and school managers trained</p>	<p>Joint Annual reviews (JARs)</p> <p>Education Management Information System</p> <p>Annual School Census</p> <p>Annual DoE reports</p>
<p>2 Management capacity of TVET systems is improved through increased cooperation and coordination of stakeholders at national and provincial levels.</p>	<p>2.1 Number and % of provinces implementing and monitoring budgeted TVET plans in line with national plans</p> <p>2.2 Number and frequency of formal consultation and coordination meetings for TVET stakeholders at national and provincial level.</p> <p>2.3 Number of TVET institutions working in cooperation with private sector to provide on the job learning /training opportunities for students</p>	<p>Joint Annual reviews (JARs)</p> <p>Education Management Information System</p> <p>Annual DoE reports</p>

The results, indicators and means of verification specified in the present annex may need to evolve to take into account changes intervening during the programming period.

²² Any intervention will be in line with internationally accepted safeguarding standards. At present, no baseline data is available. Baseline data and targets will be defined during identification of specific projects.

Attachment 4. Template for indicative timetable for commitments in million EUR²³

	Indicative amounts	2014	2015	2016	2017	2018	2019	2020
SECTOR – Rural Entrepreneurship, Investment and Trade	85			60	25			
SECTOR – Water, Sanitation and Hygiene	60		10		50			
<i>SECTOR – Education*</i>	<i>30</i>				<i>30</i>			
<i>For ACP:</i>								
Other measures (support to civil society)**	0							
B- allocation	0							
<i>Support measures</i>	9							
• Measures to support or accompany the programming, preparation or implementation of actions	1.8		1		0.8			
• Support to the National Authorising Officer	7.2				7.2			
Total	184		11	60	113			

The amounts mentioned in this table are indicative.

²³/* This needs to be read bearing in mind findings of a review in 2016-17. Amounts to be confirmed after the review are written in 'italics'.

** Support to civil society and non-State actors is streamlined in the 3 focal sectors; there is no separate allocation.