

## Ex-Ante Evaluation (for Japanese ODA Loan)

Southeast Asia and Pacific Department

Pacific and Southeast Asia Division 6

Japan International Cooperation Agency (JICA)

### 1. Basic Information

Country: Independent State of Papua New Guinea

Program name: COVID-19 Crisis Response Emergency Support Loan

Loan Agreement: March 4, 2021

### 2. Background and Necessity of the Program

(1) Current Circumstances and Issues of Papua New Guinea's Response to COVID-19 and Positioning of the Program

Amidst the global COVID-19 pandemic, Pacific island countries (PICs) are expected to have significant social and economic impacts once infections spread due to their weaker medical systems and smaller population. Therefore, from around the time the World Health Organization (WHO) declared COVID-19 as being pandemic on March 11, 2020, PNG and other PICs have strictly restricted entry into their countries.

Following confirmation of its first domestic case on March 19, 2020, the PNG Government declared a national state of emergency on March 22. From March 24 to June 16, the government has enacted several measures, such as suspending international and domestic flights as well as public bus service throughout the country, had all government workers work from home, prohibited inter-province travel, and closed all schools. Through the end of June 2020, this kept the number of infections in PNG to 11. However, after lifting the state of emergency, the number of cases has risen to 955 as of February 19, 2021.

PNG is known as a producing country of liquefied natural gas (LNG) and crude oil, as well as mineral resources such as copper and gold. These natural resources account for approximately 90% of PNG's exports (IMF, 2020). Economic growth in PNG was about 12.5% in 2014 when LNG exports began but then fell to the 3% range from 2015 to 2017 due to falling prices of oil and mineral resources. In 2018, this rate temporarily fell to minus 0.9% due to halted production and export of LNG and other resources due to an earthquake. Growth then jumped up to 4.9% in 2019 when production and exports of LNG and other resources resumed and was projected at 2.0% for 2020. However, since March 2020, the economic growth was projected to fall to minus 3.3% (IMF, 2020) due to the fall in crude oil and other resource prices, as well as dwindling economic activity due to the global COVID-19 pandemic and PNG Government pandemic measures to prevent the spread of domestic infections, such as travel restrictions and event moratoriums.

In terms of public financial management, the lack of financial resources has become dire. The stagnant global economy from the COVID-19 pandemic has compounded PNG's macroeconomic downturn over the past few years from the fall in resource prices. In the public financial management sector, the issues to ensuring that the necessary policies are implemented even under such circumstances are: properly prioritizing policies, ensuring that priority policies are budgeted for and implemented, and utilizing private funds through planned financing necessary for that purpose and development of capital markets.

In the health and medical sector, issues include: insufficient ability and numbers of medical personnel; an inability to deliver medical supplies to medical sites in a timely manner due to weak procurement, distribution, and inventory management systems; and inability to properly operate and maintain health and medical facilities. Furthermore, COVID-19 has slowed allocation of central government budget to the relevant sectors and decreased the quality and quantity of medical services for other diseases in health and medical facilities.

In order to respond to COVID-19's economic and social impacts, the PNG Government has revised its existing budget, taken on new debt, and more to fund an economic stimulus package (ESP) including assistance for agriculture and SMEs, as well as the enhancement of health and medical systems and security measures. With COVID-19, the PNG Government has run a fiscal deficit of approximately US\$2.2 billion dollars for fiscal 2020, with approximately US\$3.3 billion in revenue and US\$5.5 billion in expenditures (including debt repayment). In response to this deficit, the PNG Government issued approximately US\$550 million worth of government bonds and newly borrowed approximately US\$300 million through assistance frameworks with existing development partners, approximately US\$350 million from the International Monetary Fund's (IMF) Rapid Credit Facility (RCF), a total of US\$500 million from three financial assistance programs by the Asian Development Bank (ADB) and US\$100 million from Australia. Even so, they will require further funding of approximately US\$400 million.

In light of these financial needs, the COVID-19 Crisis Response Emergency Support Loan (hereinafter "the Program"), co-financed with the ADB, will provide financial support to the PNG Government to strengthen the provision of health care management systems and services, including measures against infectious diseases, and to strengthen public expenditure management.

(2) Cooperation Policies for Response to COVID-19 on the Government of Japan and JICA

In February 2019, the Government of Japan launched the Interagency Committee for the Promotion of Cooperation with Pacific Island Countries

(comprised of Director-General level officials from relevant governmental ministries and agencies). In May 2019, the committee announced its “Directions for Future Policy for Pacific Island Countries”, which lists support for health and medical care and financial soundness and resilience as some of its concrete initiatives. In addition, at the Pacific Islands Leaders Meeting (PALM), held in October 2020, the Government of Japan expressed that it would help in the fight against the rapidly spreading COVID-19 pandemic by quickly providing the funds the Pacific island countries need to address the economic challenges they face and helping them achieve sustainable and enduring economic growth in the longer term.

In the Country Assistance Policy for PNG (September 2017), infrastructural development and support for the investment environment are listed under the priority area "Strengthening of the Foundation of Economic Growth", and supporting improvement of medical systems and development of local health personnel, with a focus on measures to combat infectious diseases, under the priority area "Improvement of Social Services". Also in response to the recent health crisis with COVID-19, JICA announced the JICA Global Health Initiative, which aims to achieve strong universal health coverage (UHC) to protect people's health from new infectious diseases. Over the medium- to long-term, JICA will work to strengthen treatment, vigilance, and preventive systems.

In accordance with these policies and by supporting measures to combat the global COVID-19 pandemic, the Program will help in ensuring self-sustaining development and peace and stability, thus contributing to the creation of a Free and Open Indo-Pacific. The Program will help in stabilizing the economy and society from the impacts of COVID-19. Also, it will contribute to SDGs 3 (good health and well-being), 5 (gender equality), and 8 (decent work and economic growth).

### (3) Response of other Development Partners

The ADB is on the third year of its Health Services Sector Development Program (HSSDP), started in 2018, with a total of US\$200 million dollars disbursed in 2018 and 2019. While US\$100 million dollars was originally planned for the HSSDP in 2020, another US\$50 million was added for COVID-19 measures, co-financed with this Program. The Board of Directors approved a loan totaling US\$150 million in late November. The ADB also approved US\$250 million in financial assistance in November for the COVID-19 Rapid Response Program and US\$100 million in financial assistance in the State-Owned Enterprises (SOE) Reform Program.

The IMF has approved approximately US\$350 million dollars for the RCF in financial support in June 2020 and is implementing its Staff-Monitored Program

(SMP) (2020-2021). China has provided approximately US\$0.3 million dollars in grant aid and 400,000 sets of personal protective equipment (PPE).

Before any COVID-19 infections were confirmed in PNG, Australia had received a request from the PNG Government for US\$900 million dollars (includes a low-interest loan for US\$300 million previously borrowed from Australia). In the March 2020 Australia-Japan Leaders' Meeting via virtual telephone call, Japan was approached to cover half of the request (US\$450 million). (Subsequently, the Australia Embassy in Tokyo informed Japanese authorities that Australia would reduce its support from US\$900 million to US\$800 million given that ADB was considering a US\$100 million loan to the PNG Government.) Another Japan-Australia Leader's Meeting call was held in July. This time, Australia confirmed their hope that this Program, worth 30 billion yen in Japanese support, would serve as a symbol of Japan-Australia cooperation in the Pacific Islands region.

### **3. Outline of the Program**

#### **(1) Objective of the Program**

The objective of the Program is to enhance public financial management, improve subnational health system management and support the government's COVID-19 emergency response by/through providing budget support, thereby contributing to the promotion of socio-economic stability and development of the country.

#### **(2) Program Site/Target Area**

Whole of Papua New Guinea

#### **(3) Details of the Program**

With the financial support, the PNG government will promote initiatives in the following areas:

(a) Strengthening public financial management: Fiscal management, improving the budgeting process, clarifying the use of funds for the emergency COVID-19 response budget, appoint a Chairman of the Securities Committee to help expand the use of private funds, etc.

(b) Strengthening sub-national health management systems: Announcing provincial and local hospital budgets for 2020, auditing province health authorities, etc.

(c) Strengthening abilities to provide health services: Annual procurement plans for health care/medical equipment and materials and approval of a 10-year long-term procurement program, preparation and response plans for the COVID-19 state of emergency, establishment of emergency operations centers in all provinces, introduction of a convenient data system developed by WHO, etc.

(4) Estimated Program Cost (Loan Amount)

30,000 million yen

(5) Program Period

The program shall commence upon the signing of the L/A. The Program has been confirmed to achieve the same policy actions as the ADB, with JICA achieving its own policy actions in December 2020. The program will be completed when the loan is executed (scheduled for March 2021).

(6) Program Implementation Structure

- 1) Borrower: The Government of Independent State of Papua New Guinea
- 2) Guarantor: None
- 3) Program implementation organization: The PNG Department of Treasury

("DOT")

- 4) Operation and maintenance agency: DOT will aggregate information from the related ministries and agencies.

(7) Cooperation and Sharing of Roles with other Development Partners

- 1) Support activities by the Japanese government

In October 2020, through the Project for Elimination of Lymphatic Filariasis, as an initiative to help in improving health service provision functionality, 11 million yen worth of medical equipment needed for COVID-19 measures (masks, gloves, disinfectant, non-contact thermometers, soap) was provided through local procurement.

In addition, A Development Planning Advisor (2019-2022) have been dispatched as long-term experts to DOT and the Department of National Planning & Monitoring (DNPM). The experts will assist in establishing and implementing development policy and strategy, formulating and evaluating public investment programs, and establishing and implementing operation plans for their assigned agencies. By collaborating with the Program, their work is expected to improve the results, helping to further strengthen public expenditure management.

- 2) Support activities by other development partners

The Program will be monitored together with co-financier ADB, and submission of a Program Completion Report will be requested to confirm the progress and results of the program. DOT will be requested to submit progress reports for JICA's own policy actions. The monitoring period shall be through 2024, as set for co-financier ADB's program.

(8) Environmental and Social Considerations, Cross-Cutting Issues, and Gender Classifications

- 1) Environmental and Social Considerations

① Category: C

② Reason for the classification:

The Program is considered to have minimal adverse impact on the environment as per JICA Guidelines for Environmental and Social Considerations (April 2010).

2) Cross-Cutting Issues

① Items related to climate change measures: none

② Poverty measures/considerations: includes support initiatives for agriculture and small and medium-sized enterprises to mitigate the impact of COVID-19 on the poor and vulnerable.

③ Consideration for the disabled: Above mentioned 3. (3) (c) “Details the Program” is also implemented to mitigate the impact of COVID-19 on the disabled, and considerations will be taken to ensure accessibility.

3) Gender Classification: [Gender Program] ■ GI(S) (Gender Informed (Significant))

<Reasons for Categorization> Within the program and monitoring, ADB's HSSDP includes policy actions for gender equality and economic empowerment of women, such as public expenditure management from gendered perspectives and stimulation of sub-clusters against gender-based violence. Also, actions including the above perspectives will be confirmed in the completion report to be prepared by the ADB.

(9) Other special notes: The PNG government formally applied to the Paris Club Secretariat in May 2020 for debt forbearance, which was then approved in August.

**4. Effects of the Program**

(1) Quantitative Effects

1) Outcome (operation and effectiveness indicators)

Indicator	Standard value	Target value
Share of expenditures on the original budget plans of all provincial health agencies	Average for 2013-2014 53.5%	Average for 2023-2024 80.0%
Number of months in which all provincial health agencies did not run out of major medical supplies for a week or longer	Average for 2015-2016: 8 months	Average for 2022-2023: 10 months

Note: Using the same indicators as co-financier ADB for operation and effect indicators.

(2) Qualitative Effects: Recovery and stability in the economy and society, promotion of development efforts, etc. (Checked overall in terms of contribution

to GDP growth rate, and various financial and health/medical-related indicators)

(3) Internal rate of return:

No internal rate of return is calculated since this is a program-type loan.

#### **5. Preconditions / External Conditions**

(1) Precondition(s): N/A

(2) External condition(s): N/A

#### **6. Lessons Learned from Past Programs and Application to the Program**

In the aftermath of the financial crisis of 2008, JICA carried out three ODA loans for emergency budget support to three Southeast Asian countries (Emergency Budget Support Loan for the Philippines, Climate Change Program Loan (II) (economic stimulus support) for Indonesia, and the 8th Poverty Reduction Support Loan (economic stimulus support) for Vietnam) with Economic Stimulus Support for Viet Nam. The ex-post evaluation of these loans, conducted in 2011, emphasizes that since one of the objectives of emergency budget support is to extend financing in a timely manner to facilitate crisis responses, the timing of the financing is crucial for maximum effectiveness. It concludes that the procedures up to the loan disbursement should preferably be as simple and as flexible as possible.

Having learned the lessons described above, the Program has decided to speed up the processing procedures used by co-financing with the ADB, which is already providing financial support through the HSSDP, thereby utilizing the ADB's policy matrix monitoring system for the timely delivery of assistance.

#### **7. Evaluation Results**

The Program will provide financial support to help Papua New Guinea achieve economic and social stability against the impacts of COVID-19, and it will contribute to SDGs 3 (good health and well-being), 5 (gender equality), and 8 (decent work and economic growth). For the reasons listed above, it is highly necessary that JICA supports the implementation of the Program.

#### **8. Plan for Future Evaluation**

(1) Indicators to be used

As indicated in sections "4. Effects of the Program"

(2) Future evaluation schedule

Ex-post evaluation: 3 years after the Program completion.

End