The Highlands Highway – Linchpin to PNG’s Development?

Presentation at the 2015 PNG Update Conference

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ASIAN DEVELOPMENT BANK
Presentation Outline

- Why improving the Highlands’ transport links is vital to PNG’s efforts to promote inclusive growth? and reduce poverty and improve its performance toward the Millennium Development Goals.

- Why have past efforts to develop the Highlands Highway fallen short?

- What is needed to improve the Highlands Highway?
  - The plan for overcoming past challenges
Proposed Highlands Highway Project

1,100 km from Lae port to the Taro, covering 5 provinces in the Highlands region and 2 coastal provinces.
Modality and Scope of the proposed Highlands Highway project

- What’s planned—1,100 km from Lae port to the Taro, 5 Highlands region & 2 coastal provinces.
- ADB financing of US$500 million.
- Multi-Partner Financing Facility (MPFF): Arranging/Coordinating Govt. and other partners.
  - Private sector investment sought down the road – through development of “bankable” sections
- Total cost being assessed (existing assessment from a WB study done more than a decade ago).
- Timeline 10 years, ADB TA US$1.5 mil. for design + Project Development Assistance available.
#1: Why improving the Highlands’ transport links is vital to PNG’s efforts to promote inclusive growth?
Where are the poor in PNG?

Geographic distribution of poverty
(one dot = 500 people)

Poverty by region (number)

Gibson, 2005.
Definition of poverty...

Poverty Lines (Nominal)

- **Kina per adult equivalent per year**
  - NCD: $543
  - Papuan: $402
  - Highlands: $288
  - Momase Urban: $301
  - Momase Rural: $189
  - Islands: $373

- **Poverty Lines (Nominal)**
  - Food '96
  - Food 09/10

- **$1.80 per day**

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ADF
Poverty and Human Development

- PNG off track to meet MDG targets
- Poverty rate stable at around 36% (1996–2010)
- High gender disparities and gender-based violence

PNG Upper Poverty Line Estimates (% of population)

- 1996
- 2010
Majority of poverty remains in the most remote and densely populated regions...

(Contribution to national poverty by region, %)

NCD Papuan Highlands Momase Islands
1996 2010
The number of poor people in the Highlands has increased by about 100,000 since 1996.
Remote regions tend to perform poorer than average in educational attendance...

(% population that never attended school)

Lack of connectivity to markets and social services
and literacy rate...

(% population that can read and write above age ten)
..and on health and nutrition outcomes

(Prevalence of childhood stunting - %)
### National and Regional Importance of the Highlands Region

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (thousands)</th>
<th>Share (% of PNG)</th>
<th>Poverty Rate (%)</th>
<th>Estimated No. of Poor</th>
<th>Share of Pacific Poor (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timor-Leste</strong></td>
<td>1,205.0</td>
<td>11.38</td>
<td>0.499</td>
<td>601,319.53</td>
<td>15.88</td>
</tr>
<tr>
<td>Tonga</td>
<td>103.3</td>
<td>0.98</td>
<td>0.225</td>
<td>23,253.12</td>
<td>0.61</td>
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<tr>
<td>Tuvalu</td>
<td>11.1</td>
<td>0.10</td>
<td>0.263</td>
<td>2,919.30</td>
<td>0.08</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>262.6</td>
<td>2.48</td>
<td>0.127</td>
<td>33,345.00</td>
<td>0.88</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10,589.2</strong></td>
<td></td>
<td><strong>3,787,058.6</strong></td>
<td></td>
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</tr>
</tbody>
</table>

- Highlands - about 60% of PNG's total population
- Highlands poverty rate - about 37%
- Share of Pacific poor in PNG Highlands 41.4%
Lack of connectivity to markets and social services poses a major barrier to more inclusive economic growth.

Benefits of Improved Connectivity

- **Outcome**
  - Better transport connectivity

- **Outputs**
  - Improved network logistics (land, air, sea)
  - Focus on lagging Highlands

- **Inputs**
  - 2/3 of lending resources
  - Knowledge: O&M, procurement, budget
#2: Why have past efforts to develop the Highlands Highway fallen short?
Public spending...particularly on infrastructure, has recorded an unprecedented scaling up in recent years....

Source: National Budget Documents (various years), authors calculations.
Growing Implementation Challenges

- **Weak implementation capacity:**
  - Limits benefits of rising public investment
  - Opportunities for corruption
  - Creates political pressure for ‘unproductive’ expenditure and reform

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Source: Similar, original, version of chart can be found in World Bank, PNG Economic Briefing Note, November 2013.
Insufficient investment in skilled staff to plan, execute, and maintain investments ...
Design & implementation shortcoming

- Piecemeal approach
  - Rehabilitation and upgrading of portions of the highway
- Patchwork of partners and institutional arrangements
- Poorly integrated implementation
- Operation and maintenance challenges
  - The nature of pavement deterioration and asset maintenance needs
  - Cost of reconstruction vs avoided costs through proper maintenance
    - For every $1 spent on maintenance -- $4 to $16 savings on reconstruction
#3: What is needed to improve the Highlands Highway?
Factors accounting for success:

- Alignment
- Sector, geographic focus
- Programmatic approach
- Simple design
- Local presence

Performance of ADB Projects

Disbursements by year to PNG ($US, 2002–2015f)
Declining project delays and extensions

Extensions and delays in ADB loan projects in PNG

Source: ADB.
Lessons from ADB Experience

- **Resource dependency**—challenge for inclusive growth
- **Need for** long-term, predictable, financing to build capacity and improve governance
- **Safeguards**—proactive approaches
- **Women’s empowerment**—fundamental to improving social indicators
- **Resilience**—natural disaster and climate change preparedness
Proposed Implementation approach for the Highlands Highway project

- Comprehensive, Concerted, Credible approach
- Avoiding piecemeal efforts through collaboration with many institutions
- Timeline 10 years, ADB TA US$1.5 m for design, Project Development Assistance program opens opportunity for additional funds
Proposed Implementation approach (continued)

- Expanding partner funding, including from sub-national governments.
- Lending through MPFF’s to provide predictable finance, long-term capacity development, and support for policy reform.
  - Emphasis on private sector engagement and involvement.
- Focus on large contracts that privatize sub-contracting, with strengthened local employment and training incentives for contractors.
- Expand beneficiaries through community based initiatives.
- Strengthen gender-sensitivity of project designs, i.e. bridge access, community roads.
Hope this presentation has—

- Helped to convince you that improving Highlands’ transport links is vital to PNG’s efforts to promote inclusive growth?
- Explained some of the causes for shortcomings in past efforts to upgrade the Highlands Highway
- Provided insight into how ADB, the PNG Government, and other development partners are planning to improve the Highlands Highway
  - The plan for overcoming past challenges
Em tasol...Tangkyu

QUESTIONS INVITED...

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