HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

PAPUA NEW GUINEA

Climate Public Investment Management Assessment – CPIMA

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Prepared By

Nicoletta Feruglio, Bryn Welham, Paul Seeds, Murray Petrie

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Summary Technical Assistance Report
Fiscal Affairs Department

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The *Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: An IMF team conducted a Climate Public Investment Management Assessment in Papua New Guinea. This analysis identified some emerging areas of effectiveness related to management of public investment from a climate perspective, but also identified many key weaknesses throughout the public investment cycle that affect efficiency and effectiveness of infrastructure delivery in the face of climate change related challenges. The mission team identified three urgent priority and eight high priority recommendations to improve public investment management from a climate change perspective.

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Background

At the request of the Minister of Treasury, a team from the IMF's Fiscal Affairs Department (FAD) conducted a Climate Public Investment Management Assessment (C-PIMA) in July 2024.

Summary of Findings

The C-PIMA evaluation identified opportunities to improve the public investment management (PIM) system of Papua New Guinea to better respond to the growing challenges of climate change.

Climate change and natural hazards are already impacting Papua New Guinea's public infrastructure, and these challenges will intensify in future as projected. Papua New Guinea is among the most vulnerable countries in the world as regards the impact of climate change and natural hazards. Projected rising temperatures, more irregular rainfalls, and related sea level rise will increase the frequency and intensity of floods, storms, and landslides. The impact of climate change risks could be consequential for Papua New Guinea's growth and development, given the importance of climate-sensitive sectors to the economy. These intensified impacts of climate change and natural hazards will also amplify the cost of, and risks to, public infrastructure given the geographic distribution of capital assets. While the country has no overriding need to reduce its greenhouse gas emission – Papua New Guinea's contribution to global warming is negligible – the country's growth and export performance are highly dependent on mineral fuels, including LNG, making it exposed to other countries' low-carbon strategies which may reduce the demand for this key commodity over time.

The policy framework for addressing climate change has expanded over the last ten years, providing the right context for policy and regulatory reforms to support climate-aware public investment. In 2015, the Government of Papua New Guinea submitted its proposed Nationally Determined Contribution (NDC) and in 2016 ratified the Paris Agreement, demonstrating its commitment to international climate goals. In December 2020, Papua New Guinea submitted an updated and more ambitious NDC, expanding from the initial focus on adaptation to include mitigation, capacity building, and financing. In 2023, Papua New Guinea also developed the National Adaptation Plan setting out how the country will respond to the challenges of a warming climate. In the legislative area, the Climate Change Management Act (latest amendment in 2023) serves as the national framework for climate adaptation and mitigation policymaking.

Overall, performance in climate smart PIM is hindered by generally limited institutional capacity and widespread weaknesses in basic capital expenditure processes and procedures. There are clear signs, however, of increasing awareness across government departments about the impact of climate change on infrastructure objectives. Many initiatives are underway to improve public investment from a climate perspective; however, these initiatives are at early stages and there are few concrete results so far.

The C-PIMA identified some positive elements. An annual budget contingency appropriation is available to meet costs of repairing infrastructure after smaller scale disasters, and the Auditor General has a mandate to conduct performance audits, including of climate-related capital expenditures. For most C-PIMA institutions, however, the scores are low, and lower than comparable countries. While progress has been made in the development of a comprehensive climate change policy framework, it has not yet been fully utilized by the government in terms of informing national and sectoral climate-sensitive investment planning. Building codes and land-use planning do not promote green and resilient infrastructure. Inter-departmental coordination is weak, and no institution is leading work on either adaptation or mitigation related investments. Project appraisals do not integrate climate change considerations, and project selection processes do not exist. The regulatory and oversight framework for State-Owned Enterprises (SOEs) does not promote consistency between their climate-related investments and national climate policies, even though SOEs are an important driver of public investment. Climate outcomes of projects are not part of the requirements for ex post project reviews. There is a lack of formal methodologies to estimate asset maintenance requirements, and these have yet to be informed by the impacts of climate change. Finally, there is limited fiscal risk analysis, and it does not include climate-related risks.

Summary of Recommendations

Climate-sensitive public investment management in Papua New Guinea needs to be strengthened across a range of areas. Three urgent reforms were identified:

1) Develop public investment management regulations to govern the whole capital project cycle (planning, appraisal, selection, capital portfolio management, etc.), including climate considerations. The regulations should define routine and capital maintenance.
2) Assign responsibility to a lead agency to manage a stock take of the current hazard mapping systems, collate hazard data via a portal, and undertake an assessment of the costs and benefits of a new single multi-hazard mapping system.
3) Develop climate related disaster-risk screening methodology and require its use in the project identification document.

An additional eight measures are also highlighted as high priority actions:

1) Establish a Climate PIM Technical Working Group, led by the Department of National Planning and Monitoring with participation of other central agencies (Treasury, Finance, the Climate Change and Development Authority and relevant Departments and Agencies).
2) For major projects and projects that were screened medium to high-risk, develop and require the use of methodologies to assess climate change-resilience of projects and, as relevant, the greenhouse gas impact in the project formulation document.
3) Incorporate within the 2026 Budget Circular a requirement for all new proposed major capital projects to describe the resilience of the projects to climate related disasters.
4) Revise the Public Investment Program Management Guidelines to incorporate climate change considerations at different stages of the project cycle.
5) Revise the SOE oversight framework to require alignment of SOEs' infrastructure investment with government's climate change objectives.
6) Include budget lines for asset maintenance and differentiate between routine and capital maintenance.
7) Start integrating climate change considerations into roads and bridges maintenance standards and costing (pilot project).
8) Start to capture information on the vulnerability of assets to climate change in the roads and bridges asset registry (RAMS) (pilot project).