Australian Government
Department of Foreign Affairs and Trade

Australian Infrastructure Financing Facility for the Pacific

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Project Status: This paper provides a detailed overview and business case of the financing proposal as at the time it was received and endorsed by the AIFFP Board. Some aspects of the proposal may have changed following subsequent negotiations or during implementation.

Note: Sensitive and confidential information has been removed to enable publication

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Ports Infrastructure Investment Program, Papua New Guinea

Business Case

Considered by the AIFFP Board on 5 November 2021

Key Issues and Recommendations

Underpinned by a Memorandum of Understanding (MoU) signed with Australia by the PNG Prime Minister and Minister for Public Enterprises on 24 June 2021, the Government of Papua New Guinea (PNG) has requested financing through an AIFFP investment program of up to USD435.25 million (AUD580.4 million equivalent) to the Independent State of PNG to support PNG Ports Corporation Limited (PNGPCL) in: (i) refinancing PNGPCL's outstanding commercial debt of about PGK245 million (AUD93.3 million equivalent), and (ii) financing priority capital projects identified in PNGPCL's Ports Master Plan. These priority projects (individually referred to as 'subprojects') feature refurbishment, replacement and upgrades designed to restore infrastructure in poor and unsafe condition and improve the function and capacity of PNG's major export hub, Lae Port. The investment program supports the PNGPCL 30 Year Ports Master Plan officially

Key Issues

PNG's port infrastructure is essential to enable the movement of people and goods and facilitate international and domestic trade in PNG, especially when PNG's economic development is constrained by its limited transport network.

1. **Affirmative response to requests in the ports sector is key to position Australia as a partner of choice in PNG.** Approval by end 2021/early 2022 will send a strong message of Australia's willingness to support to PNG's transport infrastructure sector, following commitments made through an MOU signing between the Governments of Australia, PNG, and PNGPCL in June 2021.

2. **The Ports Infrastructure Investment Program is the type of project which AIFFP was established to finance.** AIFFP's financing would demonstrate the value that Australia places on its bilateral relationship with PNG, and on the stability and prosperity of our closest neighbour. Our engagement will also provide an opportunity for Australia to demonstrate our comparative advantage in delivering quality infrastructure. AIFFP financed activities also support local contracting and ensure local content.

3. **The investment will follow a programmatic approach.** To respond swiftly to PNG's needs in the ports sector and meet approval target timelines, the investment will be delivered through a programmatic approach under which identified subprojects will be financed up to an agreed funding envelope. This will be the first AIFFP investment to be delivered through a programmatic approach, by seeking a single approval to a series of sub-projects. Ensuring quality infrastructure outcomes and delivery is key in demonstrating our comparative advantage as a reliable and quality infrastructure financier. To ensure these outcomes, the investment program will be governed by an agreed Program Implementation Framework (PIF). The PIF defines implementation arrangements that set out requirements on due diligence (technical, economics, financial, and environmental and social safeguards), procurement, disbursement, monitoring and evaluation, reporting, and environmental and social safeguards management. Loan conditions and processes will be in place to ensure Australia's requirements on quality infrastructure delivery are met.

4. **Despite PNG's increasing debt risks, AIFFP financing will be directed towards a profitable PNG SOE, run by a qualified Board and Management.** PNGPCL has consistently turned a profit since 2016, with latest 2020 audited financial statements recording EBITDA of K108 million and NPAT of K83.7 million, and 5.5% return on equity. Earnings are expected to grow further in 2021, mostly derived from the operation of Motukea and Lae Ports which account for 70% of PNGPCL revenue. The investment will support further growth opportunities as PNGPCL seeks to upgrade Lae Tidal Basin. PNGPCL has implemented a capital structure policy, capping its total debt to assets ratio at 50%. Analysis indicates full drawdown of the AIFFP loan in 5 years will result in a total debt to assets ratio of 42% under current

exchange rates, below PNGPCL's cap. Still, the cost of servicing the USD denominated loan will increase if the Kina (currently seen to be overvalued) depreciates. The foreign exchange risk will be held by Government of PNG, who will act either as the Borrower and on-lend to PNGPCL, **or** act as a guarantor for PNGPCL as the Borrower.

5. **Refinancing the more expensive BSP loan (interest at 5% p.a.) provides PNGPCL with cheaper debt repayments, strengthening their financial position**. The refinancing element of the package is consistent with recent AIFFP investments. If the existing BSP commercial debt is not refinanced, our proposed financing for capital works would take a second ranking security position, which would increase repayment risk.

6. **COVID-19 persists in PNG.** A surge in cases from the latest delta outbreak combined with vaccine hesitancy continues to weigh on PNG, affecting domestic travel and potentially delaying implementation of capital works projects.

Key Risks

7. AIFFP Management has reviewed the Project risks and proposed mitigation measures carefully and are comfortable with the residual risk following mitigation.

Risk	Mitigation
Global Supply Chain and Cost Escalation could cause cost overruns on subprojects	Cost estimates based on current market rates will be developed as a condition precedent to drawdown for all subprojects. Cost estimates will be developed using a probabilistic method that provides 90% confidence that they will not be exceeded. Value management workshops will be held as part of the development of engineering designs, to achieve best value for money outcomes under the investment program funding envelope.
PNG approval delays	Post and AIFFP have established a strong working relationship with the proponent. This relationship offers an extra layer of interaction beyond our existing bilateral relationship to engage with our partners in PNG Government.
Implementation delays will affect AIFFP's overall portfolio performance, given the size of the investment program in relation to AIFFP's overall financing envelope.	COVID19 continues to persist in PNG and presents the highest risk the investment program implementation schedule. This has already occurred for preparation activities in Vanimo. To the extent possible, local expertise and contractors will be utilised to support project delivery. The project will comply with national restrictions to ensure that its activities do not exacerbate the extent of the outbreak at the subproject port sites and surrounding areas. Program oversight will be provided through the bilateral Transport Sector Support Program to help ensure that the program otherwise runs according to schedule.

Recommendation

8. We recommend that the Board endorses:

a) The AIFFP financing package of up to USD435 million (AUD 580.4 million equivalent) to the Independent State of Papua New Guinea, consisting of:

i. a refinancing loan facility of up to USD70 million (AUD93.3 million equivalent)
ii. an incremental loan facility of up to USD295 million (AUD393.4 million equivalent), and
iii. a grant facility of up to USD70.25 million (AUD93.7 million equivalent);

Contents

Investment Program Overview

<table>
<tr><th colspan="6">INVESTMENT DETAILS</th></tr>
<tr><td>Investment Objective</td><td colspan="5">For PNGPCL to fund refurbishment, replacement and upgrades of key port assets prioritised in their 30 Year Ports Infrastructure Master Plan (up to USD365.25 million) and to retire an existing BSP term debt facility (K245 million or USD70 million equivalent) that financed the construction of Motukea Port.</td></tr>
<tr><td>Investment Benefits</td><td colspan="5">The investment will:
(i) Support PNGPCL in undertaking urgent repairs, renewals and upgrades of coastal wharves at end of service life that provide an essential community service by connecting remote coastal communities and their hinterlands to socioeconomic opportunities. For many PNG communities, coastal shipping is the only mode for economic freight and passenger transport. Well-functioning regional seaports are essential nodes to ensure sustained coastal shipping.
(ii) Support PNGPCL in upgrading Lae Tidal Basin
(iii) Support PNG’s post COVID19 economic recovery by ensuring local content and local contractor participation in works contract
(iv) Position the Australian Government to provide reliable support to PNGPCL as a partner of choice and demonstrate its ability to deliver quality infrastructure outcomes</td></tr>
<tr><td>Country</td><td colspan="5">Papua New Guinea</td></tr>
<tr><td>Geographic Location</td><td colspan="5">Kavieng, Kimbe, Oro Bay, Lae Tidal Basin, Lorengau, Vanimo, Wewak,</td></tr>
<tr><td>Borrower / Grant Recipient</td><td colspan="5">Independent State of Papua New Guinea (with on-lend to Proponent) or
PNG Ports Corporation Limited (direct lend with sovereign guarantee)</td></tr>
<tr><td>Proponent</td><td colspan="5">PNG Ports Corporation Limited</td></tr>
<tr><td>Debt Sustainability</td><td colspan="5">High risk of debt distress</td></tr>
<tr><td>IPFA Assurance</td><td colspan="5">Yes</td></tr>
<tr><th colspan="6">FINANCIAL OVERVIEW</th></tr>
<tr><td>Total Project Value</td><td colspan="5">Up to USD435.25 million (AUD580.4 million equivalent)</td></tr>
<tr><td rowspan="3">Proposed AIFFP Investment</td><td>Total Amount</td><td colspan="4">USD435.25 million (AUD580.4 million equivalent)</td></tr>
<tr><td>Loan</td><td colspan="4">USD365.00 million (AUD486.7 million equivalent)</td></tr>
<tr><td>Grant</td><td colspan="4">USD70.25 million (AUD 93.7 million equivalent)</td></tr>
<tr><td>Co-investors</td><td colspan="5">N/A</td></tr>
<tr><td>Proposed Execution Date</td><td colspan="5">January 2022</td></tr>
<tr><th colspan="6">RISK ASSESSMENT</th></tr>
<tr><td>Risk Category:</td><td>Reputational</td><td>Country</td><td>Financial</td><td>Compliance</td><td>Implementation</td></tr>
<tr><td>DFAT Category Risks</td><td>Moderate</td><td>High</td><td>High</td><td>Moderate</td><td>High</td></tr>
<tr><td>DFAT Risk Weighting</td><td>20%</td><td>15%</td><td>15%</td><td>30%</td><td>20%</td></tr>
<tr><td>Overall DFAT Risk Rating</td><td colspan="5">High</td></tr>
</table>

Project Description and Background

The Proponent. PNGPCL is the beneficial owner and operator of 15 out of 22 declared marine ports in PNG. It acts as a landlord authority to provide harbour management and maritime compliance functions at all declared land / water interfaces throughout the country. PNGPCL’s core services include provision for wharfage, berthage, stevedoring access, marine pilotage, and stevedore licensing for both International and Domestic Vessels. PNGPCL is a fully corporatised PNG State-Owned Enterprise and is vested in trust with Kumul Consolidated Holdings.

PNGPCL has developed a 30 Year Ports Infrastructure Master Plan (Ports Master Plan) for all the declared port facilities that it manages, which was endorsed by its Board in March 2021 and officially launched by the PNG Government in June 2021. Based on the priorities of these ports, PNGPCL has requested an investment program from AIFFP for an investment program proposal of up to USD435 million (PGK 1.5 billion equivalent), including sovereign lending of about USD365 million and grants of about USD70 million.

Financing. The AIFFP investment program will be provided **either** as a loan to the Government of PNG and on-lent to PNGPCL, **or** directly to PNGPCL and backed by a State Guarantee. Financing will be provided as three facilities:

a. **Facility A (up to USD70 million loan)**: Refinancing facility to retire existing commercial debt facilities provided by Bank of South Pacific Limited.

b. **Facility B (up to USD300 million loan):** New debt for planned capex projects as agreed with AIFFP for ports at Kavieng, Kimbe, Lae Tidal Basin, Lorengau, Oro Bay, Wewak and Vanimo**.**

c. **Grant (USD70.25 million):** A grant equivalent to 16% of the overall financing amount to finance program management and supervision, technical assistance, and other capital goods and works as agreed with AIFFP.

Facility A: Refinancing Existing BSP Debt Facility (up to K245 million or USD70 million equivalent)

Facility A will refinance PNGPCL's existing BSP facilities. PNGPCL obtained a BSP facility of K300 million in November 2015, to relocate existing port facilities from Port Moresby Port to Motukea Port. On 1 October 2021, PNGPCL secured an additional BSP facility of K80 million to finance further works at Motukea Port. From December 2021, the outstanding amount over both facilities is forecast at K251 million (about K175 million for the 2015 facility and about K76 million for the 2021 facility). Without the proposed facility, PNGPCL will need to seek another financier to pay out its 2015 BSP facility which matures with a final K138 million bullet repayment due in December 2022. The refinancing of all BSP facilities is necessary to fund capital works identified under Facility B, as BSP hold security. If BSP's facility is not refinanced, our proposed financing would assume a second ranking security position.

Facility B and Grants: Capital Projects (up to USD370.25 million)

Facility B will finance priority capital projects identified in PNGPCL's Ports Master Plan. These priority projects (individually referred to as 'subprojects') feature refurbishment, replacement or upgrades designed to restore ageing infrastructure in poor and unsafe condition and improve the function and capacity of PNG's major export hub, Lae Port. Table 1 describes the planned subprojects that have been identified from the Ports Master Plan to be financed by the investment program. Front end engineering design works are underway for these subprojects, with procurement agreed in-principle with PNGPCL to be conducted through the AIFFP capital works panel.

Table 1 - List of Subprojects covered by Facility B and Grants

Subproject Description
Expansion and Development of Lae Tidal Basin Phase 2
Kavieng New Coastal Wharf
Kimbe Port Improvements
Oro Bay New Coastal Wharf
Vanimo Coastal Berth
Lorengau Port
Wewak Port
Goods and associated capital works
Program Management and Technical assistance
Financing costs associated with the loan

Programmatic approach. The investment will be delivered through a programmatic approach under which identified subprojects will be financed up to an agreed funding envelope. To ensure quality delivery that meet's Australia's requirements, the investment program will be governed by a Program Implementation Framework. The Program Implementation Framework provides details on program organisation structure, roles and responsibilities, program management and supervision arrangements, requirements on preparing due diligence (covering technical, economic, financial, and environmental and social safeguards), procurement, disbursement, monitoring and evaluation, reporting, and environmental and social safeguards management.

Strategic Assessment

The investment program is aligned with the AIFFP's investment mandate and strategic goals in the region.

The proposed project is located in one or more countries in the Pacific Islands Forum region or in Timor-Leste

PNG is part of Australia's geographic arc of stability across Melanesia and shares adjacent territorial waters in the Torres Strait and Coral Sea. Geographic proximity and historical links have given PNG a special place in Australia's foreign relations and the bilateral relationship is one of our most complex and wide-ranging. As Australia's closest neighbour, Australia's aid, defence, and security programs with PNG are Australia's largest programs, and Port Moresby hosts Australia's largest foreign diplomatic presence. There is a high level of Ministerial engagement and officials of both countries are in close and regular contact.

The proposed project demonstrates a broad public benefit and/or transformative effect to the economic development of host countries

Ports are key components of PNG's economic infrastructure contributing to the function of PNG's economy. They provide major gateways for the transport and distribution of imports and exports that are critical to PNG's economic and social outcomes. By volume and value, ports distribute the highest volume of goods in to, out of, and around the country. Many communities are dependent on shipping for food and other imports, and for access to international markets through exports. Investment in port infrastructure is important for PNG's economic development. Through the improvement of transport distribution networks, it is expected that the national population will benefit from the opportunity to participate in the market economy, reducing their reliance on subsistence agriculture, and supporting the growth of the resources and agricultural sectors. This could generate a positive feedback loop, by increasing the utilisation of ports to further improve the export economy and ongoing development of these sectors.

The overall investment is aligned with PNGPCL's Port Infrastructure Master Plan, which was endorsed by its Board in March 2021, and formally launched by the PNG Government in June 2021. The Master Plan aligns and/or complements itself to key national development strategies including the PNG National Strategic Plan (Vision 2050), PNG Development Strategic Plan 2010-2030, and PNG National Transport Strategy.

The proposed project reinforces Australia's relationships with host countries and supports a stable and prosperous region

Australia is PNG's largest trading and commercial partner, with bilateral trade worth A$6.7 billion in 2018. The project will support free and open trade and the safeguarding and development of critical infrastructure, which are considered key aspects of the PNG Australia Comprehensive Strategic and Economic Partnership, aligned with the Foreign Policy White Paper.

If approved, the project will demonstrate Australia's commitments to provide support through financing in PNG's ports sector, following the Memorandum of Understanding (MOU) signed between the Australian Government, Papua New Guinea Government, and PNG Ports Corporation Limited on 24 June 2021. The MOU defined the scope of collaboration between the MOU Participants to develop port investments of up to K1.1 billion to meet Australian and PNG legislative requirements, so that they could be considered by the Australian Government for financing by the AIFFP.

Debt Sustainability Assessment

A debt sustainability assessment has been undertaken on Papua New Guinea, the underlying credit risk for the proposed financing. The assessment was completed by the Office of the Pacific Economics Team.

Financial Overview

Investment Capital Structure

The Government of PNG has requested for an overall financing package from the AIFFP of USD435 million (about K1.5 billion equivalent), consisting of loans of up to USD365 million and grants of up to USD70 million. The financing would be provided **either** as a loan to the Government of PNG and on-lent to PNGPCL, **or** directly to PNGPCL and backed by a State Guarantee. Financing will be provided as three facilities:

- a refinancing facility to retire PNGPCL's commercial debt,
- an incremental facility to enable the financing of eligible sub-projects subject to meeting defined conditions on engineering, safeguards, and procurement requirements, and
- a grant facility to finance project management, engineering supervision, technical assistance and other works and goods as agreed by DFAT.

Table 2 - Sources of Funds

SOURCES	USD (m)	AUD equivalent (m)[a]	PGK equivalent (m)[b]	%
AIFFP Loan – Refinancing Facility	Up to 70	Up to 93.3	Up to 245	16%
AIFFP Loan – Incremental Facility	Up to 295	Up to 393.4	Up to 1,032.5	68%
AIFFP Grant	70.25	93.7	245.9	16%
TOTAL	**Up to 435.25**	**Up to 580.4**	**Up to 1,523.4**	**100%**

[a] Exchange rate of USD 1 : AUD 1.33
[b] Exchange rate of USD 1: PGK 3.50

AIFFP Financing Package

Drawdown Method

Facility A. The refinancing facility will be disbursed directly to PNGPCL's existing lender, Bank of South Pacific.

Facility B. Subprojects identified for financing by Facility B must first meet conditions precedent (CP) prior to loan drawdown. This includes the completion of all necessary due diligence in compliance with DFAT/EFA's requirements as set out in the Implementation Framework. The CPs also require for works contracts to be executed between PNGPCL and contractors that meet Australia's quality requirements.

Loan proceeds for Facility B will be drawn down as expenditures are incurred under works contracts. The following disbursement methods will apply:

- Direct Disbursement (subject to a minimum drawing amount of USD100,000 equivalent) per contractor. A maximum of 5 contractors may be paid directly from one Drawdown Notice.
- Reimbursement to PNGPCL for approved project expenditures (subject to a minimum drawing amount of USD3,000,000).

Payments will be made based on contractors' invoices of works measured to be completed against the respective works' contract Bill of Quantities. These invoices are required to be certified by PNGPCL's engineer staffed through the Program Management and Supervision Consultant and verified by AIFFP's Independent Service Provider (ISP), which is currently being provided through the bilateral Transport Sector Support Program.

Grants. The requirements for subproject approval under Facility B will follow a similar approach for grants. This will include a requirement for consulting contracts to be executed between PNGPCL and consulting firms that are approved by DFAT. Grants are also expected to finance the procurement of pilot boats through approved goods contracts meeting Australia's quality procurement requirements.

Grant proceeds will similarly be disbursed against expenditures incurred under consulting and/or goods contracts. The following disbursement methods willy apply:

- Direct Disbursement to consultants and suppliers.
- Reimbursement to PNGPCL for approved project expenditures.
- Advance payment through a trust or designated account established by PNGPCL and approved by DFAT.

For consultants, payments will be made based on consultants' invoices substantiated by timesheets and/or agreed deliverable milestones certified by PNGPCL and verified by the AIFFP's ISP.

AIFFP and PNGPCL are discussing mechanisms to ensure ongoing maintenance of assets financed by AIFFP. This includes technical assistance support to PNGPCL to develop an asset management system, that would include developing a database inventory, scheduling periodic condition assessment, annual budgeting for maintenance, and work plan and schedules to ensure refurbished ports are sustained over their intended 50-year design life.

Investment Impact

The investment program will deliver sustainable maritime infrastructure for regional ports with design life of 50 years. Based on condition assessments, a high proportion of assets under PNGPCL management are in very poor or poor condition and require urgent repairs or remedial actions. By not addressing this, the capacity for trade to/from regional communities will be constrained.

In addition to the regional subproject ports, the investment program will provide improvements to PNG's largest port of Lae. Transforming Lae port with capability to host rail mounted gantry shore cranes will allow dedicated gearless container ships to call direct from major ports in Southeast Asia.

Improved Economic Activity

The PNG economy relies on ports as a critical link in the logistic chain for international and domestic trade. More than 90% of internationally traded goods are shipped to/from ports in PNG. Globalisation of production and the rapid expansion of world trade have made ports even more important to economic development. The ports sector is particularly critical for PNG, a Pacific island country whose territory comprises the eastern half of New Guinea and 600 offshore islands. Of its 22 provinces, 17 are on the coast. More than 70% of the country's 9 million people are widely dispersed across islands and coral atolls and along the banks of major rivers. There is no national rail network, and the road network is sparse. Although 80 airports and numerous airstrips serve a network of scheduled, charter, and missionary air services, even to some very remote communities, air transport is too costly for any trips other than emergencies.

As a condition precedent to loan drawdown for each subproject, a business case will be developed, to confirm that the investment provides a positive benefit to PNG's economy. A draft business case for Oro Bay has been completed based on concept level engineering designs. The business case undertook a cost-benefit analysis, measuring the net economic benefits to the community and PNGPCL that would be derived from the proposed subproject investment, against a base case of no investment. Oro Bay is a key supply chain link for nearly all business in the subproject area, which includes the town of Popondetta. Without investment, Oro Bay port would be expected to deteriorate to an inoperable condition by 2026. The cost-benefit analysis confirmed that Oro Bay does provide a positive benefit to the PNG economy. The subproject investment is forecast to yield a benefit-cost ratio of 4.2 - that is benefits generate an economic value 4.2 times higher than capital and operational costs, when assessed over 25 years and discounted at the assumed economic opportunity cost of capital of 6%.

Improved Local Labour and Employment

The investment will support the development of and provide benefit to local communities associated with port infrastructure delivery. Co-benefits will include local construction employment, with a focus on equal opportunities for women and locally based workers, and procurement of local construction services, as well as associated multiplier benefits (e.g., income, economic growth). Contractors will be required to submit local labour and industry participation plan(s) at tender, with ongoing communication between AIFFP, PNGPCL, and contractors to identify additional opportunities to build local industry capacity and skills. The subprojects will implement a Gender Action Plan, which will support gender awareness on women's rights to equal employment opportunities, targeting a minimum 20% female participating in employment opportunities.

Climate change and disaster resilience

AIFFP engaged the Australian Pacific Climate Partnership to undertake climate projections and geohazard reports for each port development. Modelling for Oro Bay, Kavieng and Vanimo Ports indicates increasing mean air temperature, a range of projected rainfall change (from an increase to a decrease), sea level rise and fewer but more intense tropical cyclones. Geoscience Australia has provided geohazard assessments, covering earthquakes and tsunamis. Subproject investments will be designed to increase climate resiliency in the context of changing sea levels, and more extreme weather events.

Gender equality, disability, and social inclusion

To address barriers and strengthen gender equality, disability, and social inclusion, assessments of gender gaps relevant to each Port subproject will be required. PNGPCL will require contractors to comply with DFAT Policy on Prevention of Sexual Exploitation Abuse and Harassment as a base compliance obligation. Additional due diligence will be undertaken at project level through Environmental and Social Impact Assessment (ESIA) for clarification and further development of procedures and training on anti-harassment and domestic violence.

PNG is also a source, transit, and destination country for men, women, and children subjected to sex trafficking and forced labour, and Ports can be used for trafficking purposes. The SESA will develop recommendations to augment PNGPCL's existing Safety and Security measures and support and elevate awareness to prevent human trafficking and Gender Based Violence, including training and protocols on victim referral services.

Environmental, Social and Governance

Consistent with IFC Performance Standard, PNG Conservation and Environment Protection Authority (CEPA), and DFAT Safeguards Policy, SESA was commissioned by AIFFP to assess and understand sector-wide impacts of the Investment and provide a framework for incorporating any identified relevant management measures into the individual ESIAs for each Port Project and/or into operational planning of PNGPCL. Significantly, the SESA provides early warning of cumulative impacts which are foreseeable under the Master Plan and considers a broad range of feasible development approaches across the sector. As a condition precedent to loan drawdown, each Port Subproject will require a full ESIA, in line with Equator Principles, and reviewed for compliance by an Independent Environment and Social Consultant. Screening against IFC Performance Standards has determined a Category B (i.e., moderate) rating for Environmental and Social impact and risk, based on assessments having not uncovered any diverse or unprecedented impacts, and finding that all risks and impacts identified are site specific, largely reversible and can be readily addressed through well understood mitigation measures using industry best practice. Individual subproject ESIAs will verify this risk category once detailed scopes of works are available. A draft ESIA for Oro Bay has been developed.

Environmental Safeguards

The works planned under this investment will be taking place within modified habitats, i.e., habitats which either contain a large proportion of non-native origin and/or where human activity has substantially modified areas of primary ecological function and species composition. To mitigate potential introduction or spread of invasive alien species (marine and terrestrial), project design options are required to remain within port boundary or newly leased commercial land and avoid impacts to any undeveloped natural habitat outside port lease boundaries. Increased waste and pollution generation will be mitigated by AIFFP support to PNGPCL to strengthen its Environmental, Social and Health System to include sustainable waste practices.

Activities associated with dredging may cause impacts to benthic marine environment and water quality. Where dredging is required, option(s) for dredging will be selected that will avoid or minimise loss of habitats identified in the marine assessments. Any dredge activity will be managed through a Dredge Management Plan, which outlines the most appropriate method of dredging to manage impacts. Disposal of waste dredge material will be at permitted Offshore Disposal Site identified by CEPA and verified through site investigations.

Social Safeguards

No customary land will be acquired for the project and there are no Indigenous Peoples' communities or groups who maintain a collective attachment to distinct habitats, ancestral territories, or natural resources within the project areas. The project will not result in any involuntary restrictions on land use or access to natural resources or ecosystem services at the community level.

Assessments to anticipate and avoid adverse impacts on the health and safety of workers and affected communities are required as port of Project ESIAs, particularly as there may be imported workforce and security personnel for all ports. Only some Ports will require works immediately adjacent to communities. Risks and Impacts will be identified and managed in the individual ESIA/ESMPs.

Unexploded Ordnance (UXO) Chance Find Management Assessment and Measures are required for each project, including ensuring workers are aware of potential for UXO and of procedures to deal with it. Work will be stopped immediately if possible UXO identified, authorities immediately notified and immediate area and surrounds evacuated, as appropriate.

Residual risks to children and vulnerable groups are assessed as being low. PNGPCL and project contractors will be required to demonstrate compliance with DFAT's Child Protection Policy and implement measures to prevent situations whereby children or disadvantaged groups may be placed at risk.

Procurement Approach

All procurement of goods, works and consulting services will follow open competitive bidding processes. PNGPCL have agreed to utilise the DFAT Infrastructure Service Panel (the Panel) for the provision of goods, works and services. The Panel comprises over 50 firms from 8 countries who were pre-qualified through an open international competitive process in 2019. The Panel is split between 'Head Contractor' (Works/ Goods) and 'Client-Side Project Management' (Services) categories. AIFFP will agree the investment procurement plan with PNGPCL as part of the Program Implementation Framework and will ensure key aspects such as safeguards, local labour participation and climate resilience are incorporated in to key procurement processes and documents.

Implementation

Facility A as a refinancing facility, will retire PNGPCL existing commercial debt. In disbursing PNGPCL's outstanding liabilities to its current lender, the implementation of Facility A will be completed.

Facility B and the grant component of the project will be implemented through a programmatic approach. This will enable the AIFFP to ensure all AIFFP's rigorous project design and due diligence requirements are satisfied iteratively as sub-projects are developed. The list of subprojects to be financed by Facility B and the grant have been identified, each with an initial scope of works identified through PNGPCL's endorsed Ports Master Plan. The programmatic approach is necessary to determine the eligibility of subprojects and provide the AIFFP with the opportunity to review the acceptability of the due diligence undertaken (covering technical, economic and financial, and environmental and safeguards considerations) in accordance with Australian requirements during implementation, and prior to drawdowns of the loan. The programmatic approach is governed by the Program Implementation Framework which sets out:

- Eligibility of subprojects
- Requirements for subproject due diligence to fulfil Conditions Precedent to subproject loan drawdown
- Procurement Requirements including quality construction and local participation
- Loan drawdown procedures
- Investment program oversight, including the overall investment program structure, investment steering committee, program management and supervision unit, and AIFFP Implementation Service Provider
- Environmental and Social Safeguards, GEDSI, and Climate Resilience Requirements following the Sector Environmental and Social Assessment
- Monitoring and Evaluation Requirements in following the Investment Program M&E Framework

Key Risks

The AIFFP has assessed the investment to have an overall risk rating of **High**. A summary of assessed residual risk, by each risk category, is provided in the table below. The sections below provide further analysis on only the key risks identified by the AIFFP and how they have been mitigated. The project risk register contains the full analysis of each type of risk. Compliance, safeguards, and implementation risks are covered in sections above and are not repeated below.

In accordance with the AIFFP Risk Policy, the project risk register will be reviewed and updated at the end of each quarter or sooner if there are shifts in the risk profile.

Table 3 - Residual Risk Assessment

Risk Category:	REPUTATIONAL	COUNTRY	FINANCIAL	COMPLIANCE	IMPLEMENTATION
DFAT Category Risks	Moderate	High	High	Moderate	High
DFAT Risk Weighting	20%	15%	15%	30%	20%
Overall DFAT Risk Rating	High				

Key Reputational Risks

A major commercial user of Vanimo wharf will be Bewani Oil Plantation Ltd (BOPPL). BOPPL frequently attracts very critical attention for impacts on deforestation, scores an extremely low 4.5 / 182 (2.5%) on the Sustainability Policy Transparency Assessment and, unlike other prominent PNG Palm Oil exporters, is not a member of the global Roundtable on Sustainable Palm Oil (RSPO). BOPPL was mentioned in the 2021 Guardian Newspaper 'Pacific Plunder' series in an October 2021 investigation by international NGO Global Witness, which was picked-up and reported in prominent media outlets.

While BOPPL is not within PNGPCL's operational control, Australia could incur reputational damage. To mitigate these reputational risks, PNGPCL has agreed, as part of the investment, to work with commercial partners including palm oil companies toward possible operational improvements for environmental management.

Country Risk

DFAT Country Risk Assessment

The AIFFP has been established to provide financing in developing economies in the Pacific region and must engage effectively with country risk to do this. While political risk in PNG is high, PNG is an important neighbour and AIFFP was established and designed to respond to Pacific countries' need for infrastructure financing that goes beyond limited grant funds.

Country risk would be partly mitigated by AIFFP's project implementation oversight arrangements, strong and ongoing engagement with project stakeholders and the presence of the Australian High Commission in Port Moresby. Post provides representative and reporting functions for the AIFFP including on macroeconomic issues, the political economy, governance, and infrastructure issues.

Key Financial Risks

Financial risk is rated as **High.**

Monitoring & Evaluation

A Monitoring and Evaluation Plan (MEP) has been developed for the investment program in consultation with the Proponent. The MEP includes an investment program level M&E Framework which will be reviewed at least annually by AIFFP and will be updated as required. Figure 1 - Program Logic sets out the program logic for the MEP. PNGPCL will report to AIFFP on the construction progress of all sub-projects in a consolidated quarterly progress report during the construction period. Subject to easing of travel restrictions, AIFFP will conduct semi-annual field visits to review sub-project construction progress and support monitoring and evaluation against the M&E Framework. TSSP, through a dedicated "AIFFP Program Unit" will provide additional support. Upon completion of each sub-project port, PNGPCL will prepare an investment completion report within six months after construction and when the infrastructure is operational. In the final year of the investment, a final Investment Monitoring Report will be undertaken by AIFFP to identify lessons learned to inform future designs and strategic direction. A total of USD2 million equivalent has been allocated for M&E activities from the investment program grants.

Figure 1 - Program Logic

High Level Goal	PNG's marine ports are maintained to support economic and social development		
Investment Objective (Direct outcomes of AIFFP investment)	Priority port infrastructure and maintenance capacity is enhanced	Priority port infrastructure sub-projects are financed and delivered	Priority capacity and capability initiatives and support are delivered
Outputs of AIFFP Investment	Sub-project design and due diligence completed	Civil works established and delivered	Refinancing Facility is in place

Key Project Milestones

KEY MILESTONES	
5 Nov 2021	AIFFP Board Date
Early-Mid Nov 2021	EFA Board Date
Mid Nov 2021	National Executive Council, PNG
Mid to Late Nov 2021	Confirmation of Loan and Grant Agreements with GoPNG and PNGPCL
17 Nov 2021	Australian Government Approval
Jan 2022	Loan and Grant Agreement Execution
End 2026	Expected Project Completion