



*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*



Australian Government  
Department of Foreign Affairs and Trade



Australian  
Infrastructure  
Financing Facility  
for the Pacific



# Supporting Connect PNG Road Investment Program – Wau and Sepik Highways, Papua New Guinea

Business Case

Considered by the AIFFP Board on 20 April 2021

## Key Issues and Recommendations

The Government of Papua New Guinea (Government of PNG) has requested financing of up to **AUD70 million equivalent** to the Independent State of Papua New Guinea (PNG) to support the Department of Works and Implementation (DOW) in delivering: (i) Sustainable long-term maintenance contracts for the Wau and Sepik Highways over an aggregated 359 km of the national road network, and (ii) preparation of feasibility studies, safeguards due diligence and detailed engineering designs for a 196km section of the proposed Trans-National Highway which is a priority under the Government of PNG's Connect PNG Program. Cost benefit analyses for the investments in Wau and Sepik Highways indicate Economic Internal Rates of Return of 35% and 28% respectively, demonstrating positive economic impact for Papua New Guinea.

### Key Issues

1. **Australia has an opportunity to support land transport investments in PNG, including the proposed Trans-National Highway which is a major “nation building” project that will ultimately link the Highlands to the capital of Port Moresby.** Roads are among the highest priorities for the PNG Government. The “Connect PNG Economic Infrastructure Development Programme” (Connect PNG), endorsed by PNG's National Executive Council in April 2020, envisages a planned PGK20 billion (AUD7.3 billion) program covering 16,000 kms of roads over the next 20 years. Australia is the largest grant financier for roads through the bilateral program. Most external financing for the sector, however, is from the Asian Development Bank (ADB), which has committed over USD600 million in lending to roads in the past decade with a further USD1.85 billion in loans anticipated in the next five years. It is estimated that PNG has also received bilateral lending for roads of about K830 million, equivalent to about USD235 million.
2. **An increase in Australian loan financing for roads, supplementing bilateral grants, is appropriate despite PNG's increasing debt risks.** Although the IMF in 2020 downgraded PNG's debt rating to “unsustainable”, PNG needs considerable external financing to respond to the current economic downturn and the multilateral banks and other partners will continue to lend. Reflecting PNG's commitments to the IMF to undertake new project borrowing only on highly concessional terms, however, AIFFP is proposing a combination of loans and grants. Investments in roads will help PNG respond to a range of development challenges, especially increasing access to markets for the approximately 200,000 people that live within 5km of the Wau and Sepik highways that will be the focus of the initial investment. Road investments are appropriate for sovereign borrowing: although projects will not have immediate revenue streams, maintenance along the Wau and Sepik highways is estimated to have an economic rate of return of approximately 30% (details in Section 4 below) indicating that such investments will contribute to increased growth and revenue over the medium-to longer-term. The focus on local procurement will also have direct job creation benefits, with up to 600 local jobs expected per annum over the five-year implementation period. It will also build capacity and skills of local contractors to bid for other contracts.
3. **The unfolding COVID-19 outbreak threatens PNG's economic recovery and carries significant risks to project approval and implementation.** As of 31 March, PNG recorded 5,620 cases and 56 deaths resulting from COVID-19, although low testing numbers are likely to be concealing the full extent of the outbreak. A four-week national isolation strategy announced on March 17 may need to be lengthened and expanded to include restrictions on non-essential

businesses. Despite significant Australian assistance to PNG, increasing COVID cases could put approval and implementation timelines at risk. Risks will be mitigated to some extent by the focus on using local contractors and expertise to undertake maintenance works.

## Key Risks

Key Risks	Mitigating Factors
<p><b>COVID-19.</b> PNG's economic recovery is threatened by a new wave of COVID19.</p>	<p>Implementation of the project will focus on local procurement, and local supervision expertise. The project will be supported by ongoing TSSP2, which has international and local expertise mobilised in-country. If the COVID19 situation worsens, international expertise may need to be demobilised, and lockdowns would have repercussions for all activities in PNG, including delays to the project. Australia plans to roll-out voluntary COVID19 vaccinations to the general public in PNG from April 2021, and immunisations in PNG will assist with business continuity and project implementation.</p>
<p><b>PNG Debt.</b> International debt management agreements and PNG Government policy allow Australia to undertake concessional project lending to PNG, however the PNG Government's debt sustainability situation is deteriorating, and will very likely be negatively impacted by the deteriorating COVID19 situation. In June 2020 the International Monetary Fund (IMF) downgraded PNG's risks of debt distress rating from Moderate to High.</p>	<p>While PNG is unlikely to default on its external debt obligations, as a responsible lender it is important that AIFFP ensures its financing packages to PNG are highly concessional and have positive economic and social impact. This has become increasingly important due to the deteriorating COVID19 situation, which will very likely have a negative impact on Government revenues. PNG's current fiscal pressures have been factored into the financing for the project with the inclusion of a 5-year grace period for principal repayments. The proposed loan on its own satisfies Australia's obligations under the G20-Paris Club Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments, Nov 2020, with the grant component further ensuring the financing package is concessional and broadly comparable overall with an IDA credit. The project is expected to have strong economic and social benefit for the PNG economy.</p>

## We recommend that the Board endorses:

The provision of the AIFFP financing package of **AUD70 million equivalent** to the Independent State of Papua New Guinea to finance the project, including:

- (i) A loan of up to **USD43.12 million** or **AUD56 million equivalent**; and
- (ii) A grant of up to **AUD14 million**.

## List of Abbreviations

ADB	-	Asian Development Bank
AIFFP	-	Australia Infrastructure Financing Facility for the Pacific
APCP	-	Australia Pacific Climate Partnership
APTC	-	Australia Pacific Training Coalition
CBA	-	Cost Benefit Analysis
CEMP	-	Construction Environment Management Plan
CSEP	-	Comprehensive Strategic Economic Partnership
DFAT	-	Department of Foreign Affairs and Trade, Australia
DOW	-	Department of Works and Implementation, Papua New Guinea
EFA	-	Export Finance Australia
ESMF	-	Environment and Social Management Framework
GBV	-	Gender based violence
IFC	-	International Finance Corporation
LTMC	-	Long Term Maintenance Contract
M&E	-	Monitoring and Evaluation
NPA	-	National Procurement Act
NPC	-	National Procurement Commission
NRN	-	National Road Network
NRNS	-	National Road Network Strategy
PGK	-	Kina
PMO	-	AIFFP Supporting Connect PNG Program Management Office
PMSC	-	Project Management and Supervision Consultant
PNG	-	Papua New Guinea
PRF	-	Project Readiness Facility
PS	-	Performance Standard (IFC)
PSEAH	-	Prevent of Sexual Exploitation, Abuse and Harassment
QA	-	Quality Assurance
SMP	-	Staff Monitored Plan
TSSP	-	Transport Sector Support Program
TSSP2	-	Transport Sector Support Program Phase 2
TVET	-	TAFE-delivered Vocational and Education Training
WATTM	-	Weighted Average Term to Maturity
WHO	-	World Health Organisation

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# 1. Project Overview

INVESTMENT DETAILS					
<b>Investment Objective</b>	To support the Department of Works and Implementation (DOW) to increase the proportion of PNG's National Road Network in fair condition or better.				
<b>Investment Benefits</b>	The project will: (i) increase the length of PNG's National Road Network in fair condition or better by approximately 359 km, thereby preserving the economic life of national road assets (ii) support the collection of road condition data to be included in DOW's Roads Asset Management System, (iii) support the development of national private sector contractors by engaging them on long-term maintenance contracts, and (iv) ensure better access for communities to socioeconomic opportunities.				
<b>Country</b>	Papua New Guinea				
<b>Location</b>	Morobe Province, East Sepik Province, Sandaun Province				
<b>Borrower/Grant Recipient</b>	Independent State of Papua New Guinea				
<b>Proponent</b>	Department of Works and Implementation				
<b>Debt Sustainability</b>	High-risk of debt distress				
<b>IPFA Assurance</b>	Yes				
FINANCIAL OVERVIEW					
<b>Total Project Value</b>	AUD76 million				
<b>Proposed AIFFP Investment</b>	<b>Total Amount</b>	AUD70.00 million equivalent			
	<b>Loan</b>	USD43.12 million or AUD56.00 million equivalent			
	<b>Grant</b>	AUD14.00 million			
<b>Co-investors</b>	Government of PNG contribution of AUD6 million equivalent to cover taxes and duties associated with the project				
<b>Proposed Execution Date</b>	July 2021				
RISK ASSESSMENT					
<b>Risk Category:</b>	<b>Reputational</b>	<b>Country</b>	<b>Financial</b>	<b>Compliance</b>	<b>Implementation</b>
<b>DFAT Category Risks</b>	Moderate	High	High	Moderate	High
<b>DFAT Risk Weighting</b>	20%	15%	15%	30%	20%
<b>Overall DFAT Risk Rating</b>	High				

## Background

1. A major constraint to inclusive growth in PNG is the inadequate provision of dependable transport infrastructure and efficient transport services. The transport sector is relevant to PNG's many development challenges, particularly access to markets which remains a critical determinant of household level income. Rural communities produce the main agricultural exports, coffee, cocoa, and copra, which are estimated to contribute about 10% of total export earnings. However, these communities are widely dispersed and have limited connections to markets and basic services. The World Bank's Logistics Performance Index ranks the quality of trade and transport related infrastructure in PNG at 148 out of 160 countries. Transport costs up to 30% of revenue for most producers, with post-harvest losses ranging from 5-25% due to transport delays (World Bank, 2019).

2. PNG's road network comprises 8,738km of national roads and up to 21,000km (estimates vary) of sub-national roads that fall within the responsibility of provincial administrations. The national roads are made up of 12 separate networks; the inter-connection of these networks is expected to be costly but continues to be a long-term national development objective as articulated in the Government of PNG's "Connect PNG Economic Infrastructure Development Programme" (Connect PNG).
3. A significant proportion of the national road network (NRN) is in poor condition. As of 2017, only 38% of the NRN was assessed to be in good condition, 30% to be in fair condition, and 32% to be in poor condition.<sup>1</sup> About 80% of the bridges are structurally deficient, with most of them constructed up to 60 years ago, and not well-maintained. Poor transport infrastructure networks isolate large segments of the population from essential social services, income generating opportunities and markets. Improving the condition of the NRN will improve people's access to livelihoods, health, and education, improving quality of life and reducing poverty.

### Project Description

4. The total project cost is estimated at **AUD70 million equivalent** excluding taxes and duties. The project will finance:
  - (i) Long term maintenance contracts (LTMCs)<sup>2</sup> over a total length of 380 km along the Wau Highway (Morobe Province) and Sepik Highway (East Sepik and Sandaun Provinces) from 2021 to 2027;
  - (ii) Project Management and Supervision Consultants (PMSC) to oversee and supervise the LTMCs;
  - (iii) Program Management Office (PMO) services to support DOW in day-to-day project oversight and management; and
  - (iv) Preparation of feasibility studies, safeguards assessments and detailed engineering designs for proposed road upgrades in Morobe Province at 9 Mile to Poiyu Turnoff (near Aseki) via Bulolo.<sup>3</sup>
5. The project proponent is DOW, with program management supported by the "AIFFP Supporting Connect PNG Program management office" (PMO)
6. The alignments of the LTMCs are shown in the site locations plans in Figure 1 and Figure 2 below.

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<sup>1</sup> National Road Network Strategy 2018 – 2037, Department of Works and Implementation.

<sup>2</sup> LTMC activities will include enhancements to road infrastructure including and not limited to road resurfacing, replacement of damaged bridge structural elements/foundations/abutments and reconstruction of damaged culverts.

<sup>3</sup> The project will supplement the Project Preparatory Grant approved by the Board on 30 September 2020 to prepare an investment proposal for road upgrades.

Figure 1 - Wau Highway Site Location



Figure 2 - Sepik Highway Site Location



## Rationale for AIFFP's Involvement

7. **Land transport is a top economic and political priority in Papua New Guinea.** The PNG Government's "Connect PNG Economic Infrastructure Development Programme" (Connect PNG), endorsed by PNG's National Executive Council in April 2020, is among the nation's highest development priorities. Connect PNG has a planned PGK 20 billion program covering 16,000 kms of roads over 20 years of implementation. The Trans-National Highway is the first priority under Connect PNG and is expected to have a transformational impact in improving connectivity in Papua New Guinea, by providing the first land transport connection from the capital, Port Moresby, to PNG's economic centre, the Highlands Region. The Trans-National Highway will be developed as part of this project, with initial focus on preserving the existing road assets along the proposed alignment, including the Wau Highway. The land transport sector is at the centre of PNG's political economy.
8. **Australia should support PNG's land transport sector to position itself as infrastructure financier of choice.** PNG actively seeks development partners to provide sovereign finance for land transport. Since 2000, PNG has received development partner financing in the transport sector of over USD3 billion, with Australia being the second largest overall contributor and the highest contributor of grant financing to the sector. It is expected that PNG will continue to seek significant financing support from its development partners as it pursues meeting its objectives set out in Connect PNG. AIFFP's involvement in the roads sector in PNG will strengthen Australia's credibility with the PNG Government as an infrastructure financier. Australia's engagement in the transport sector is also expected to demonstrate the importance of quality infrastructure outcomes.
9. **The project invests in a sector that is key to PNG's economic development.** The transport sector is relevant to PNG's many development challenges, particularly access to markets which remains a critical determinant of household level income. Rural communities produce the main agricultural exports, coffee, cocoa, and copra, which are estimated to contribute about 10% of PNG's total export earnings. However, these communities are widely dispersed and have limited connections to markets and basic services. Investment in the Wau and Sepik Highways will ensure communities in the project areas will have sustained access to socioeconomic opportunities and essential services. Cost benefit analyses for the investments in Wau and Sepik Highways indicate Economic Internal Rates of Return of 35% and 28% respectively.
10. **Post COVID-19 Response.** The project will also support economic recovery post COVID-19 with expected direct job creation benefits. The project will procure LTMCs using national competitive bidding and encourage use of national and local contractors. It is expected that up to 600 national and local jobs will be generated per annum. This will support the development of national contractor capacity and skills development for the national and local workforce.
11. **Alignment with other PNG Government priorities.** The project also supports the Government of PNG priorities as articulated in its National Road Network Strategy (NRNS) 2018-2037, that places value on preserving existing road networks and corridors on the Core National Road Network. This comprises 17 key corridors of about 2,309km (including Wau and Sepik Highways), which have priority over other road sections for the allocation of funding to sustain roads in "fair-good" condition, and to rehabilitate and improve roads from "poor" condition to "good" condition.

## Key Considerations

12. **COVID-19.** As of 31 March, PNG recorded 5,620 cases and 56 deaths resulting from COVID-19, although low testing numbers could be concealing the full extent of the outbreak. The unfolding COVID-19 outbreak is a key threat to PNG's economic recovery. The virus has been reported in 20 of PNG's 22 provinces despite limited cross-country interconnectivity, and media reports suggest a high proportion of affected healthcare workers. A four-week national isolation

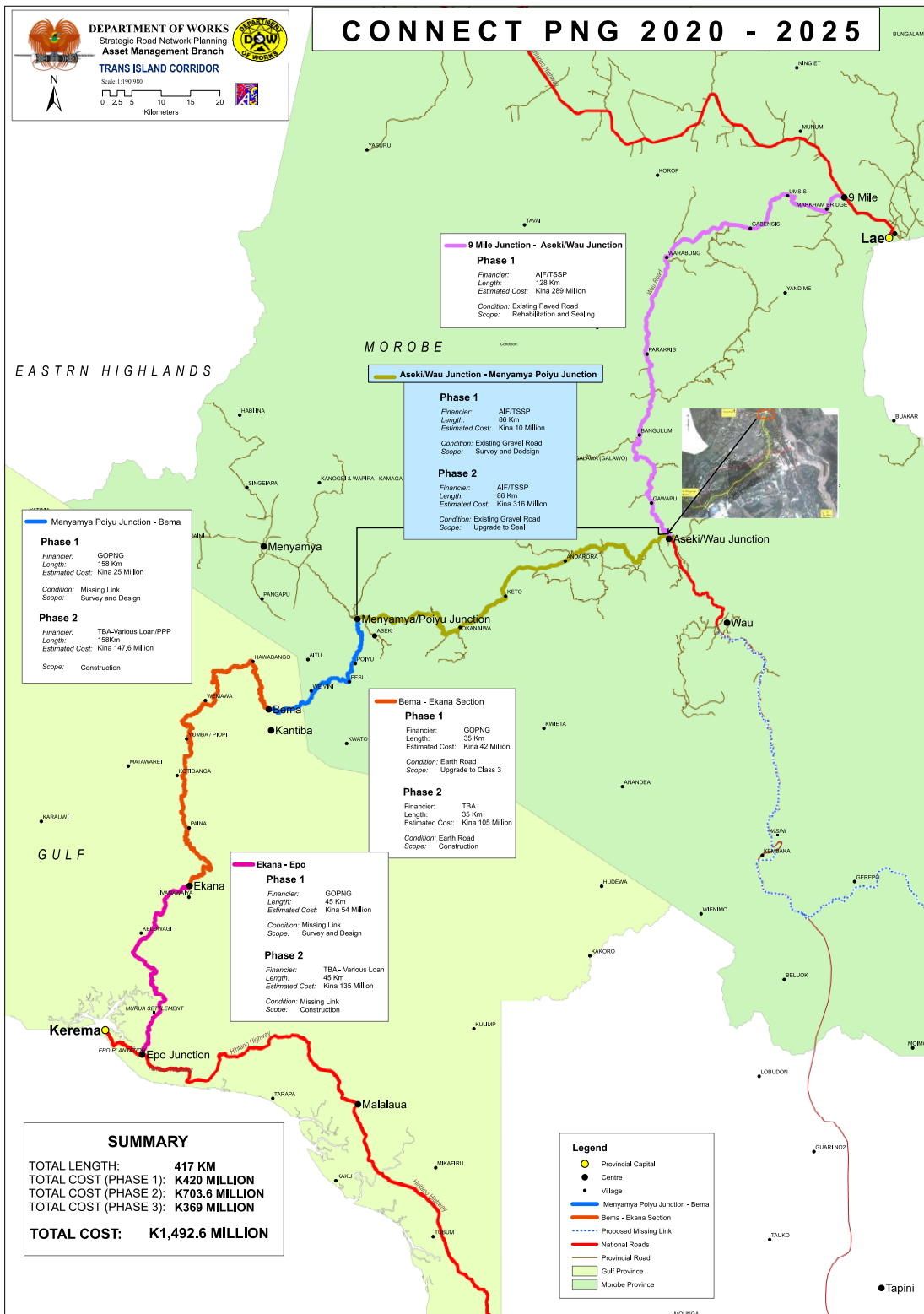
strategy announced on March 17 may need to be lengthened and expanded to include restrictions on non-essential businesses. Notwithstanding the substantial risks to the overall social and economic wellbeing of PNG, the unfolding outbreak and accompanying lockdown measures to manage the spread of COVID-19 present severe risks to this project's approval and delivery. As much as possible, local expertise and contractors will be utilised to support project delivery, and the project will comply with national restrictions to ensure that its activities do not exacerbate the extent of the outbreak.

13. **The project will be implemented through the Transport Sector Support Program (TSSP).** Australia has supported investment in PNG's transport sector through TSSP since 2007, which is financed through bilateral Official Development Assistance and managed by the Australian High Commission in Port Moresby. The project will establish a Project Management Office (PMO) within TSSP and will utilise existing systems and plans to ensure it is implemented effectively. The second phase of TSSP (TSSP2) is scheduled to end in April 2022 while arrangements for Phase 3 approvals are in process. AIFFP is working closely with Post to ensure there is a smooth transition from TSSP Phase 2 to Phase 3.
14. **Alignment of the Trans-National Highway.** The project is supporting preparation of a subsequent investment for road upgrades along the Trans-National Highway. DOW has reviewed potential corridors for the Trans-National Highway and has prepared a Route Option Selection Report, including route options assessment and recommendation. Four routes were shortlisted, and an optimal route has been recommended based on engineering, economic, social, and environmental selection criteria. AIFFP is supporting project preparation for a section of the recommended route, which is the most cost-effective and economic, and has the fewest environmental and social impacts. The recommended route is yet to be endorsed by the Government of PNG through its National Executive Council (NEC).
15. **Development Partner Coordination.** The assumed Trans-National Highway route is broken up in to five distinct sections over a total of 415km, as shown in Table 1. AIFFP is preparing a subsequent road upgrading investment for the first two sections. However, the full benefits that would accrue from the establishment of the Trans-National Highway would only be attained through road upgrades across all five sections. It is assumed that the Government of PNG, through its Connect PNG Steering Committee will coordinate efforts and identify appropriate resources to complete the full alignment of the Trans-National Highway. It is understood that the Asian Development Bank (ADB) has a Project Readiness Facility (PRF) that has identified the Trans-National Highway as a priority and could prepare the remaining three sections, although implementation of the PRF has not yet commenced.

**Table 1 - Summary of Trans-National Highway Indicative Sections**

Section	Start	End	Estimated Length (km)	Condition
1	9 Mile	Bulolo	106	Existing Paved Road
2	Bulolo	Poiyu Turnoff	90	Gravel Road
3	Poiyu Turnoff	Bema	35	Earth Road
4	Bema	Ekana	123	Foot Track
5	Ekana	Epo	45	Earth Road

Figure 3 - Map of Trans-National Highway Indicative Sections



## 2. Strategic Assessment

16. The project meets AIFFP's investment mandate and strategic goals in the region. The project will support COVID19 recovery and economic stabilisation, which supports Pillar 2 (stability) and Pillar 3 (economic recovery) of Australia's COVID19 Development Response Plan.<sup>4</sup>

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

17. PNG is within the AIFFP's geographic mandate and is part of Australia's geographic arc of stability across Melanesia. 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 with any other country, 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**

18. Papua New Guinea's NRN is essential in achieving the PNG Government's development goals and objectives. The NRN is the means to achieve inclusive growth, with a well-maintained, and reliable NRN ensuring sustainable development. The NRN condition is a barometer of economic growth: a NRN in poor condition stifles growth in trade and agricultural production. The high prices of commodities are in-part the effect of high transport costs due to poor road condition – vehicle operating costs are high and travel time is excessive, resulting in reduction in truck capacity and the economic life of vehicles severely shortened. Improved quality of life, income and employment opportunities and increased price competitiveness of products can be achieved if the condition of the NRN is improved. The economic and social sectors rely on the NRN and the achievement of sector objectives is endangered by its poor condition. These sectors include agriculture, forestry, mining, oil and gas, trade and industry, education, tourism, and health.

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

19. Supporting Connect PNG and PNG's National Road Network Strategy is consistent with commitments signed on 5 August 2020 by both Prime Minister Morrison and PNG Prime Minister Marape on the Comprehensive Strategic Economic Partnership (CSEP). The CSEP commits Australia to strengthen cooperation with Papua New Guinea on its priority regions and economic corridors to drive growth, enhance stability, and improve service delivery.
20. Through the CSEP, Australia invests significantly in infrastructure in PNG, which continues to be the single largest sector of Australia's development support year on year. The project will reinforce Australia's cooperation by increasing investments in critical economic infrastructure, by providing additional equivalent AUD13 million annually for road investments, supervision of works, and preparation of major road upgrades prioritised under Connect PNG.

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<sup>4</sup> <https://www.dfat.gov.au/publications/development/papua-new-guinea-covid-19-development-response-plan>

## 2.1 Debt Sustainability Assessment

21. The International Monetary Fund (IMF) and World Bank undertook a Debt Sustainability Assessment of PNG's public debt in June 2020 and rated it at high risk of debt distress but sustainable over the next decade.
22. PNG's high-risk of debt distress rating does not prevent Australia from lending to PNG. The World Bank, ADB and IMF will continue to lend to PNG with this rating because of PNG's economic growth potential and PNG's ongoing commitment to reforms.
23. PNG is a 'blend' country eligible for a combination of both concessional and non-concessional financing from both the World Bank and the ADB. As a 'blend' country, PNG is not eligible for grants from the multilateral development banks, despite the recent increase in the risk of debt distress rating. AIFFP proposes to provide a combination of sovereign lending and grants to PNG. A base grant equivalent to approximately 20 per cent of the total AIFFP financing package would ensure overall terms are more than sufficiently concessional for PNG to meet commitments to the IMF under the Staff Monitored Program (SMP) and comparable to an IDA credit.
24. PNG's overall debt sustainability should not be a constraint to the loan proceeding although the situation should be monitored. Given the deteriorating COVID19 situation and uncertainties regarding economic impact, lending on highly concessional terms should be prioritised. The proposed AIFFP financing package includes a 5-year grace period, therefore it would not increase repayments in the short-term or qualify for debt repayment suspensions under the DSSI.

### 3. Financial Overview

#### 3.1 Investment Capital Structure

25. The project will follow a traditional sovereign financing structure, where the overall approved financing package (including the proposed blend of grant and loan funds) will be provided to the PNG Government, representing the Borrower, the Independent State of Papua New Guinea. The project organisation structure is shown in Figure 4.

Figure 4 - Project Organisation Structure

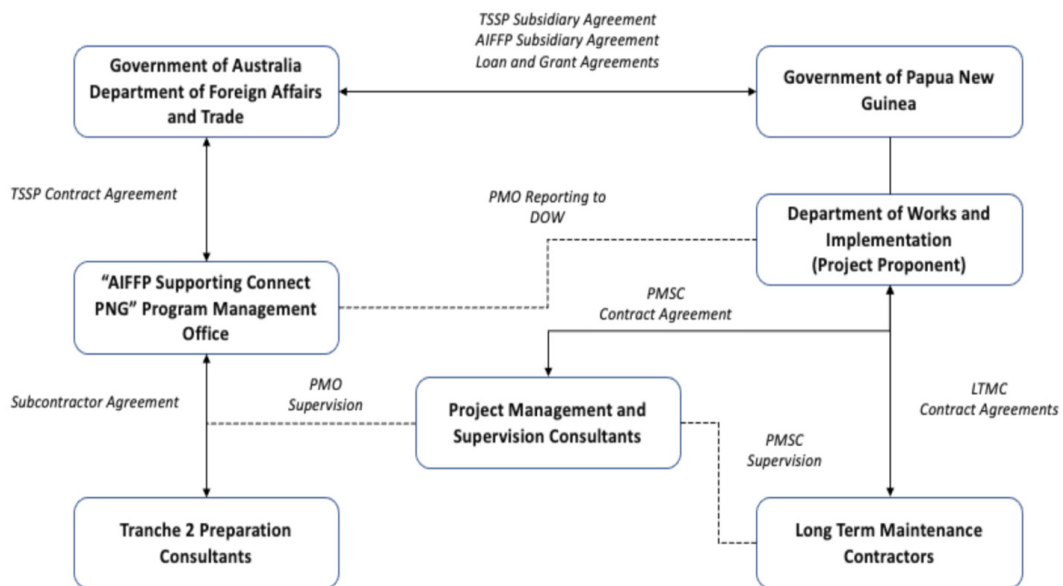


Table 2 - Sources of Funds

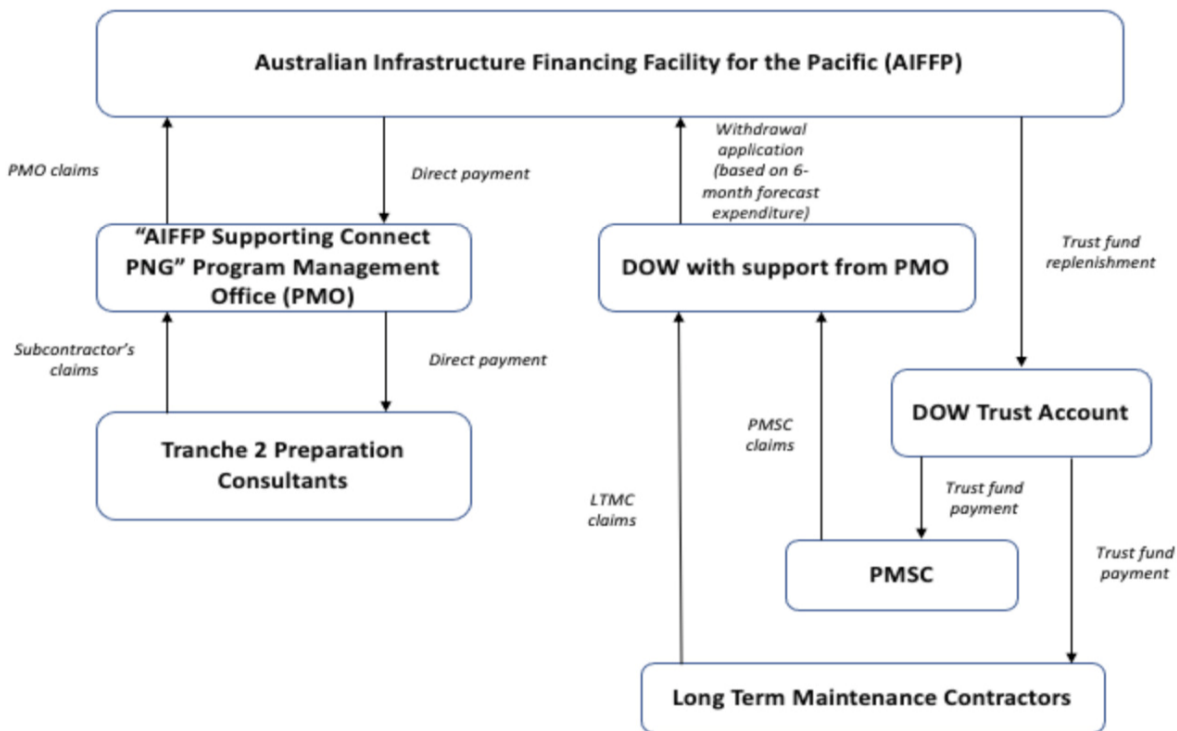
SOURCES	USD (m) <sup>1</sup>	AUD (m)	%
AIFFP Loan	43.12	56.00	73.6%
AIFFP Grant	10.78	14.00	18.4%
PNG Government	4.65	6.04	8.0%
<b>TOTAL</b>	<b>58.55</b>	<b>76.04</b>	<b>100%</b>

<sup>1</sup> Assumed AUD1.00 = USD0.77

### 3.2 AIFFP Financing Package

- 26. The PNG Government has requested loan funds in USD. A floating interest rate based on a margin to LIBOR has been utilised. The margin is based on the agreed pricing structure for AIFFP loans, where the margin to LIBOR is based on the weighted average term to maturity (WATTM) of the loan. A margin of 90 bps applies, based on a tenor of 25 years inclusive of a 5-year grace period (applicable to principal repayments only), which has a WATTM of 15.25 years, assuming straight-line repayment.
- 27. Long-term maintenance contracts (LTMC) and the project management and supervision consultants supervising the LTMCs will be signed between DOW and the successful bidders. Funding will be disbursed using the direct payment method, where contractors will be paid directly **or** through the DOW Trust Account which is administered by TSSP2, as shown in
- 28.
- 29.
- 30. **Figure 5** below.

**Figure 5 - Project Flow of Funds**



### 4. Investment Impact

- 31. The Project contributes to Sustainable Development Goals 9 (industry, innovation and infrastructure) and 11 (sustainable cities and communities). The project's investment impact was primarily assessed based on the long-term maintenance activities on the Wau and Sepik Highways.

## 4.1 Improved Economic Activity

32. **Sepik Highway.** The Sepik Highway traverses six districts across East Sepik and Sandaun provinces.<sup>5</sup> Most of the people in East Sepik Province earn relatively low and informal incomes from food, cocoa, fish, or betel nut. More moderate incomes are earned around Yangoru and Dreikikir from selling rubber and cocoa. Opportunities for income from a burgeoning vanilla industry are emerging, particularly around Maprik. However, the poor condition of the Sepik Highway has historically been a limitation to producers to efficiently access markets. Traffic volumes range from 700 – 800 vehicles per day at major centres including Passam Junction and Maprik, and reduce further west to between 150 – 300 vehicles per day at Dreikikir and Mai.
33. **Wau Highway.** The Wau Highway (9 Mile to Bulolo) traverses two districts across Morobe Province, including Huon Gulf District and Bulolo District. At a provincial level, people living in the Markham and Watut Valleys have higher informal incomes from the sale of betel nut and fresh food. More moderate incomes are earned from fish and coconuts. Other sources of income are available from mining near Wau, forestry near Bulolo, and cattle in the Markham Valley. Major industries along the Wau Highway alignment include: (i) one of the largest mines in the country, the Hidden Valley Gold Mine, located near Wau<sup>6</sup>, and (ii) commercial agriculture including a large-scale poultry and egg facility operated by Zenag. Traffic volumes range from 850 – 900 vehicles per day from 9 Mile to Mumeng before reducing further south to about 500 vehicles per day at Bulolo.
34. Investment in the Wau and Sepik Highways will ensure remote communities' access to socioeconomic opportunities and essential services is sustained. Through the project, a base traffic growth rate of 3% per annum is expected to be sustained. Without an appropriate road maintenance regime, the condition of these key national economic corridors will deteriorate, resulting in increased time and cost to travel. If left unmaintained, communities will eventually become disconnected from road transport and their access to socioeconomic opportunities.
35. Better road conditions from road investment activities allows vehicles to operate at higher speeds (increasing annualised vehicle capacity and reduced operating hours at the same level of demand), and benefit from reduced wear and tear on vehicles. As a result, the cost of transport for both freight and passengers will decrease (or at least be sustained) for operators, and these savings could be passed on to road users.<sup>7</sup> With lower transport costs, reduced travel times, improved access, and better reliability through project intervention, there is a potential stimulus for new business and commercial activities resulting from lower cost of doing business, increased economic inflows, and access to a greater number of markets. This could improve employment outcomes in connect communities, and transition from informal employment and cash crops to formal employment.

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<sup>5</sup> Wewak, Yangoru Saussia, Maprik, Ambunti/Dreikikir, Nuku, and Aitape/Lumi districts.

<sup>6</sup> The Hidden Valley Gold Mine commenced operations in 2010 and is nearing the end of its life. It is expected to close in 2026 if the mine life extension is viable and approved, otherwise the project is expected to close in 2023-2024. Exploration drilling is being undertaken within a 10km radius of existing operation which could prove additional reserves.

<sup>7</sup> As an example, road transport operators servicing the Highlands Highway have indicated that with higher speeds and lower maintenance costs resulting from roads in good condition, a reduction in freight transport rates of up to 30% could be achievable.

36. Cost benefit analyses (CBA) were conducted for Wau Highway and Sepik Highway investments. Evaluation of annual streams of project economic costs and associated benefits under a baseline scenario yielded: (i) an economic internal rate of return (EIRR) of 34.9% and economic net present value (ENPV) of PGK93.7 million at a discount rate of 6% for Wau Highway; and (ii) an EIRR of 27.8% and ENPV of PGK138.7 million for Sepik Highway. Sensitivity testing was undertaken and demonstrated that the economic viability for both Wau and Sepik Highways investments is robust. Sensitivity testing was conducted under the following scenarios: (i) reducing the annual traffic growth rate to 2% (from the base 3%); (ii) increasing construction costs by 20%; (iii) increasing the assumed asset life to 40 years (from the base 30 years); and (iv) increasing the assumed discount rate to 10% (from the base 6%), which increases the hurdle to demonstrate economic viability. Under all scenarios, a positive ENPV was returned, which demonstrates economic viability of the proposed investment.

## 4.2 Improved Local Labour and Employment

37. PNG faces a significant challenge in providing enough jobs for its rapidly expanding young workforce. A lack of human capital – skills, qualifications, experience and knowledge – will remain a key barrier to economic development over the coming years unless addressed. The global COVID-19 pandemic has sharply exacerbated many of the challenges, for example by imposing limitations on government training and education budgets, TVET trainer and student mobility, and job opportunities. In response, the Australia Pacific Training Coalition (APTC) 'Pacific Regional Labour Market Analysis – Snapshot' (Oct 2020) suggests regional governments should focus their advocacy on promoting the longer-term economic benefits of ramping up jobs and training, including to meet emerging domestic demand in areas less contingent on international travel.
38. The project's long-term maintenance contracts on Wau and Sepik Highways are expected to generate employment opportunities directly through the contracted works. The project will conduct competitive national tender processes through PNG's National Procurement Commission, targeting local contractors.<sup>8</sup> The contracts are expected to generate at least 600 jobs annually, 80% of which would be semi-skilled or unskilled labour which would target employing people in the local area. The project will implement a Gender Action Plan, which will support gender awareness on women's right to equal employment opportunities and will target a minimum 20% female participating in employment opportunities.
39. In preparing the subsequent Road Upgrading Project along the 9 Mile-Bulolo-Poiyu Turnoff alignment, a procurement strategy will be developed to improve local content, including industry development, skills development and labour participation. Engagement with APTC is ongoing to help develop appropriate skills and qualifications nationally, so that contractors engaged under subsequent road investments will have access to a deeper pool of available national skills.

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<sup>8</sup> The Wau Highway LTMC was tendered and the recommended contractor, a local PNG firm, was approved for contract award by the National Executive Council on 24 February 2021.

### 4.3 Climate change and disaster resilience

40. Road investment activities will focus on maintaining the existing standard and preserving or improving the condition of the Wau and Sepik Highways. These activities will include the maintaining and repairing drainage structures and culverts, clearing drainage pathways, repairing eroded sections, installing scour protection adjacent to rivers and streams where required, and replacing flood damaged bridge structures/foundations and abutments. It is expected that these activities will preserve the economic life of the roads and prevent their deterioration as they become subject to more extreme weather events resulting from climate change and as natural disasters occur, when compared to a reactive maintenance regime and/or a 'do-nothing' scenario.
41. PNG's climate is changing with temperature at Port Moresby observed to increase at the rate of 0.22°C per decade since 1943. Sea level has risen by about 7mm per year since 1993, which is larger than the global average of 2.8mm-3.6mm per year. There are no clear trends in rainfall, which are variable year on year. In preparing the subsequent Road Upgrading Project along the 9 Mile-Bulolo-Poiyu Turnoff alignment, consideration of risks and vulnerabilities resulting from climate change and natural disaster impacts will be considered prior to the commencement of detailed engineering design. The Australia Pacific Climate Partnership (APCP) has been consulted to provide climate change projections and analysis, which will support the development of a climate change and disaster vulnerability assessment. This will inform the detailed engineering designs for a substantial road investment for the proposed Trans-National Highway, especially by adapting design of infrastructure to the most significant risks that would likely arise from extreme weather and seismic events.

### 4.4 Gender equality, disability and social inclusion

42. Gender inequality and gender-based violence (GBV) are key impediments to reducing poverty and boosting shared prosperity. Women and men who live along the Wau and Sepik Highways make different use of the roads, associated feeder roads and footpaths and the shared systems of transportation. Such different travel patterns and transport experiences can be linked to gender inequality within the home and the labour market, processes of socialisation and education, and road design and construction choices. Without adequate attention to different needs and preferences of women and men, the existing highways result in many women having to walk miles in dangerous conditions to access jobs and markets, health and essential services; children facing long travel times in order to get to school— often finding themselves completely cut off when it rains— and increased security risks for women and girls.
43. Narrow bridges present particularly acute risk for slow-moving pedestrians, such as women loaded with heavy or bulky items, market items or children. Women also tend more than men to use informal means of transportation where road safety issues are poorly addressed (such as unsealed roads and tracks), which can make their travel slower and more precarious. Inadequately cleared vegetation alongside highways further increases vulnerability, often forcing pedestrians to walk on roads with fast moving traffic. Personal safety and the avoidance of harassment on the road and in PMVs, violent attacks or sexual abuse are additional major concerns for women road users, many of whom try to avoid travelling after dark or on weekends. Each of these risks are exacerbated for people living with disability.
44. To address barriers and strengthen gender equality, disability, and social inclusion considerations, assessments of gender gaps relevant to the project will be required, including establishing baseline data and indicators in order to measure impact in reducing gender

inequality through the project activities. Gender considerations will be elaborated and analysed across at least two focus areas: (1) Women's economic burden and road safety, and (2) Women's access to jobs on road projects including their roles under the PMSC and LTMCs. Depending on initial findings the consultant may be asked to develop for the subsequent Road Upgrading Project a cost-benefit analysis for making road safety programming more responsive to the needs of men and women (such as quantification of cost savings to families for avoided injuries and fatalities; identifying points for targeting training and information on road safety to women and men).

45. GBV is an important barrier in women's successful participation in employment and ability to travel safely on roads to access markets, schools and essential services; improved understanding and addressing GBV prevention and response can therefore contribute to the overall success of the project. In order to manage against the risk of exacerbating GBV risk for stakeholders, TSSP through the PMO will be required to: (i) update the project's social assessment to include assessment of the underlying GBV risks and social situation, using DFAT PSEAH and CP risk assessment tools to provide guidance; engage with a variety of stakeholders (political, cultural or religious leaders, health teams, local councils, social workers, and women's organizations; ensure the Stakeholder Engagement Plan, which will be implemented over the life of the project, will keep the local communities and other stakeholders informed about the project's activities, to specifically address GBV related issues

## 4.5 Road safety and security of road transport

46. It is expected that as road traffic volumes increase from improved road conditions, there would be a corresponding increase in the number of vehicle crashes. Also, as road conditions improve due to the project intervention, the number and severity of crashes could escalate, due to higher traffic growth and as vehicles travel at higher speed. However, most serious crashes and fatalities in PNG occur on sealed roads with potholes.<sup>9</sup> As the project will treat potholes and maintain roads in good condition, a likely result could be reduced crash frequency, and a resulting lower cost to society from the impacts of road crashes. Road security is also expected to improve, as vehicle numbers increase and as road conditions allow vehicles to travel faster.
47. National Data indicate that men are much more likely than women to be involved in serious road accidents (Age-standardized death rates (ASDR) male 37.0/ female 7.5 [per 100,000 population 15+]; Alcohol Attributable fractions (AAF) male 12.2%/ female 2.3%) (WHO 2014). This is partly due to men's behaviours while driving (risk-taking, alcohol consumption) and as pedestrians (drunkenness), and partly due to women driving primarily within towns and cities. While men are much more likely to be injured or killed in traffic accidents there are, however, consequences also for women: they end up caring for disabled household members and find themselves the main source of support in the event of a family injury or death.
48. The project will implement a road safety campaign that will raise awareness on traffic safety, road rules, use of road crossings, understanding of safety signs, and awareness of the importance not to damage road infrastructure and signs. The campaign will target training women as active community mobilisers for road safety awareness and will reach out to women,

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<sup>9</sup> 2011-2015 National Road Safety Data Report, Road Traffic Authority, PNG.

men and schools for road safety awareness training opportunities, and respond to the different risks faced by each group.

## 5. Environmental, Social and Governance

49. Significant effort was required by AIFFP and independent environment and social consultants to assist the TSSP team to identify appropriate methods and tools to assess and manage the incorporation of international lender standards and practice into project preparation. TSSP, like all DFAT grant programmes, applies environmental and social safeguards which are duly diligent, proportionate to the potential likelihood and significance of risks and issues, and align with DFAT Safeguards Policy. AIFFP's loans, such as for 'Supporting Connect PNG Road Investment– Wau and Sepik Highways', require compliance with Export Finance Australia's (EFA's) Safeguards Policy, and must align with international lender standards including the Equator Principals (EPs) and International Finance Corporation (IFC) Performance Standards (PS). Although DFAT Policy, the EPs and IFC PS are broadly equivalent in their objectives, principles, and scope, the international lender standards typically include substantially more detail about material standards and procedural principles and rules concerning impact assessment and mitigation, and the respective duties of borrowers and the lending entity. Accordingly, and despite the inherent low-moderate E&S risk in the project, some E&S assessment criteria and mitigation measures to manage safeguard risks were additional to those ordinarily required during TSSP sub-project preparation.
50. Residual environmental and social risks for the Project are assessed by AIFFP as being **Moderate**. The project has been prepared in line with the following safeguards standards:
- IFC Performance Standards and Associated World Bank Group Environment, Health and Safety Guidelines;
  - The Equator Principles: Version 4;
  - DFAT Environmental and Social Safeguards; and
  - DFAT policy on child protection, asbestos management and preventing sexual exploitation, abuse and harassment (PSEAH).
51. The project has developed an environmental and social management framework (ESMF) which will serve as the project's umbrella document for environmental and social management of activities being financed. The ESMF will guide DOW and supporting TSSP2 managers on environmental and social screening of project activities, as well as subsequent environmental and social assessment for the subsequent Road Upgrading Project. The ESMF includes preliminary environmental and social assessments and preliminary environmental and social management plan at an appropriate level to manage potential risks associated with project activities. An Independent Environmental and Social Consultant (IESC) has been engaged to review the Investment's compliance with DFAT and EFA's Safeguards Policies.

### 5.1 Environmental Safeguards

52. Preliminary environmental assessments have been completed for the proposed road investment activities on Wau and Sepik Highways. The assessments are commensurate with the nature and risk profile from the proposed road investment activities. Residual environmental risks for the project are of **Moderate** significance. The risks can be appropriately managed through standard management and mitigation measures before and during construction and during operation.
53. Project activities will be undertaken within the recognised rights of way of existing highways. The most significant environmental impacts are anticipated to arise from construction activities,

including: (i) generation of solid waste and wastewater discharge from worksites and worker accommodation, (ii) non-routine events such as hydrocarbon spillages, (iii) loss of environmental amenity due to noise or dust generated by construction machinery, and (iv) decline of water quality/loss or damage to biodiversity habitats due to project activities near waterways. These risks will be controlled by ensuring that contractors submit and implement Construction Environmental Management Plans (CEMP) that will include erosion/sedimentation controls around work area waterways, dust suppression controls, work during daylight hours only, and implementation of waste and wastewater management plans. CEMPs will be approved by the TSSP2 safeguards specialist, and compliance with CEMPs will be monitored by the PMSC, TSSP2, and DOW.

54. The project will introduce construction traffic to the project area, and increased levels of vehicle traffic during operation. As part of the CEMP, the contractor will implement a traffic management plan, ensuring road users are aware of ongoing construction works and given sufficient distance and notice to reduce speed and avoid construction areas. The contractor will also be responsible for rolling out road safety awareness training programs to communities so that they are familiar with safe practices near and on the road during construction works and when the project roads are fully operational.

## 5.2 Social Safeguards

### Child Protection

55. Factors that can increase risks to children in road investment projects include: the recruitment and supervision of labourers; physical spaces that can hide abuse; and changes to or dangers travelling on routes to school, water supplies or villages (dangers may include sexual abuse and harassment or increased heavy vehicle traffic). In-migration/ movement of roads construction crews can cause or escalate the sexual abuse and exploitation of children (including prostitution and trafficking), the rate of teenage pregnancy and the spread of communicable diseases. When companies transport materials by truck, the abuse and exploitation of children along transport routes can increase.
56. Residual risks to children and vulnerable groups under the project are assessed to be **Moderate**. The project will be implemented through TSSP2, which will provide support to DOW and project contractors to ensure compliance with DFAT's Child Protection Policy and implementation of measures to prevent situations where children or disadvantaged groups would be placed at risk. The project will follow PNG's labour laws which prohibit the use of child labour for children under 16 years of age. Contractors engaged under the project will be required to develop and implement child protection plans for their respective contracts. The plan should include generating awareness among communities in the project areas on age requirements for project-based employment.

### Prevention of Sexual Exploitation, Abuse and Harassment

57. Residual risks associated with sexual exploitation, abuse and harassment are assessed to be **Moderate**. Contract provisions shall require contractors to comply with DFAT Policy on Prevention of Sexual Exploitation, Abuse and Harassment, and develop a workers code of conduct.

## Displacement and Resettlement

58. Residual risks associated with displacement and resettlement are assessed to be **Moderate**. The project is likely to avoid physical displacement of households or communities as project activities will occur within recognised rights of way along the Wau and Sepik Highways. Economic displacement has the potential to occur as a result from: (i) permanent relocation of stalls and businesses that are currently encroaching within the existing road corridor, and/or (ii) loss of trees and other crops of economic value and productive land. The project will manage these impacts through a fit for purpose land access and resettlement action plan, including a livelihoods restoration plan as required by IFC PS5.

## 6. Procurement Approach

59. Procurement of LTMCs and the PMSC contracts will follow DOW requirements for contract procurement. This requires that contracts follow Papua New Guinea's National Procurement Act 2018 (NPA), which requires that the National Procurement Commission (NPC) to undertake procurement on behalf of public and statutory bodies, and for contracts with a value above PGK10 million to be approved by PNG's National Executive Council (NEC). A procurement plan for the project has been developed by TSSP2, who are supporting DOW in meeting NPA requirements for the procurement of works and services.
60. **Long Term Maintenance Contracts (LTMC)**. The Wau Highway LTMC was tendered competitively, and the recommended contractor was approved by the NEC on 24 February 202 (estimated value AUD23.45 million equivalent). Tender documentation for the Sepik Highway LTMC is being approved and is expected to be advertised in April 2021. The financial value of the LTMCs require procurement including bidding, evaluation, and contract award through the NPC. Procurement of LTMCs is through national competitive bidding which encourages the use of national and local contractors.
61. **Project Management and Supervision Consultant (PMSC)**. TSSP2 will run the procurement process for the PMSC. This will limit procurement risks noting that TSSP2 follows Commonwealth procurement rules and maintains a high degree of oversight on procurement outcomes. TSSP2 is in the process of appointing a five-year PMSC for the full range of its program through a competitive process following the NPA. AIFFP will fund full-time supervision positions in the PMSC to supervise AIFFP financed investments, including a PMSC Team Leader and Regional Engineer. Also, AIFFP will cover a contribution for safeguards personnel who will be assisting DOW in ensuring the implementation and monitoring of LTMC contractor's safeguards, including monitoring implementation of approved CEMPs and other safeguards management plans.
62. **PMO and Preparation for subsequent road upgrading project**. The PMO and preparation of the subsequent road upgrading project are being implemented through the existing TSSP2 (refer to Figure 4). The procurement of individual advisers for the PMO and a firm for project preparation will follow Commonwealth procurement rules, as required under TSSP2.

## 7. Implementation

### Project Supervision and Management

63. Implementation of the project will be supported through the ongoing TSSP2, which delivers Australia's support to PNG's transport sector. TSSP2 supports AIFFP's investments in the transport

sector will be through project management of the works and consulting services to ensure technical quality of outputs, and full accounting of project expenditures. To do so for this investment, the AIFFP is establishing a PMO within TSSP2 to implement the project including overseeing the PMSC and LTMCs and preparing a subsequent investment for the Trans-National Highway. The PMO structure for the project is set out in Table 3:

**Table 3 - Key project management unit roles**

<b>TSSP2 AIFFP-Connect PMO</b>		<b>Roles and Responsibilities</b>
1. Project Director	Full time	<ul style="list-style-type: none"> <li>• PMO Leadership</li> <li>• Provide overall project management delivery</li> <li>• Coordinate technical inputs and outputs</li> <li>• Assist in project communication and reporting</li> </ul>
2. Deputy Project Director	Full time	<ul style="list-style-type: none"> <li>• Assist/support the Project Director</li> </ul>
3. Senior Project Engineer/Project Engineer	Full time	<ul style="list-style-type: none"> <li>• Assist the project team coordinate due diligence tasks</li> <li>• Collect road and associated data</li> <li>• Undertake site visits to address stakeholder issues</li> </ul>
4. Contract and Procurement Adviser	Part time	<ul style="list-style-type: none"> <li>• Support the process for procurement and contract management activities for AIFFP financed works</li> <li>• Support preparation of bidding documentation for Construction Supervision for subsequent Road Upgrading Project</li> </ul>
5. Safeguards Advisers	Part time	<ul style="list-style-type: none"> <li>• Ensure compliance of LTMCs with ESMPs</li> <li>• Support DOW in confirming that Project Preparation consultants meet safeguards requirements</li> </ul>
6. Finance Officer	Full time	<ul style="list-style-type: none"> <li>• Undertake all financial administration requirements</li> </ul>

## **Financial Management**

64. DFAT's contractor for TSSP provides oversight of expenditure. The current managing contractor is GHD Australia Pty Ltd.
65. The DOW Trust Account is managed by DOW using its financial management systems and processes. The operation of the account is now governed by a trust deed signed in December 2012 by then PNG Minister for Finance, the Hon. James Marape, MP. The instrument stipulates that all payments from the account must be only for road construction and associated activities provided for in the transport program workplan.
66. The transport schedule to the PNG-Australia Aid Partnership Arrangement commits the PNG Government to the effective use of Australia's resources in the transport sector, including a zero-tolerance approach to fraud. The schedule also outlines that where funds provided by Australia to PNG are misappropriated or used other than for the intended purpose, the PNG Government will promptly repay the funds to Australia.
67. The managing contractor maintains a high level of fiduciary control over the account. This includes through regular independent audits, oversight of expenditure (including through a dedicated TSSP financial cell in DOW and GHD's TSSP finance team), and agreement from Government of PNG on how funds will be used. GHD Australia Pty Ltd oversees responsibilities and arrangements are outlined in the TSSP 2 head contract, as well as in manuals and plans, such as the program's Financial Management Manual.

68. The DOW Trust Account is subject to regular independent audit. To date, there have been no significant adverse findings or reported instances of fraud resulting in the loss of funds in relation to the account. Annual independent audits continue to guide improvement to existing checks and balances.

## 8. Key Risks

69. 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. Compliance, safeguards and implementation risks are covered in sections above and are not repeated below.

**Table 4 - 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				

### 8.1 Key Reputational Risks

70. Residual reputational risk is rated as **Moderate**.
71. Australian support for road investments which support PNG development priorities, ensures the sustainability of PNG's existing infrastructure assets, and mobilisation of local labour and develop the national contractor industry post-COVID is unlikely to be controversial. Ongoing management and monitoring of safeguards risks will be required, given the sensitivity of land issues in PNG. To the extent possible, project activities will take place within recognised rights of way along the road corridor, thereby reducing the risk of landowner grievances and disputes that would otherwise carry significant reputational damage.

### 8.2 Country Risk

72. Country risk is rated as **High**.

#### DFAT Country Risk Assessment

73. 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.
74. Country risk would be partly mitigated by AIFFP's project implementations 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.

### 8.3 Key Financial Risks

75. Financial risk is rated as **High**.
76. Sovereign risk is moderate. The concessional nature of the loan means such financing presents few additional risks to PNG's debt and debt service burden. The terms of the proposed loan are highly concessional; the loan assumes a 25-year tenor repayment period inclusive of 5-year grace period on principal payments. However, the potential for domestic capacity constraints related to governance, infrastructure and logistics issues and local contractors could result in more significant work delays than anticipated. Downside scenarios would diminish the economic viability of the projects. And, given an already-weak fiscal position, as described in the country risk assessment, such an outcome could challenge the government's ability and willingness to repay loans.
77. Currency and convertibility risks are high. Persistent foreign exchange shortages in PNG pose currency convertibility risks. The sovereign is also vulnerable to exchange rate risk. If the overvalued exchange rate depreciates, the cost of servicing foreign-currency denominated debt will increase. Partly mitigating these risks is the 5-year grace period on principal repayments.

### 8.4 Key Compliance Risks

78. Residual compliance risk is rated as **Moderate**.
79. Residual risks related to fiduciary management and fraud are assessed as moderate. PNG has weak rankings in Worldwide Governance Indicators, including significant constraints in respect of the rule of law, government effectiveness, regulatory quality and control of corruption and ranks 142nd out of 180 countries in Transparency International's 2020 Corruption Perceptions Index.
80. The project will be implemented through the existing PNG Australia Partnership, which has a zero-tolerance approach to fraud. Specific definitions on corrupt practice are included in contracts, with clear termination and disbarment processes for contractors and individuals that engage in such activities. The PMO and PMSC provide DFAT with sufficient resources to supervise and certify progress of contractors and ensure funds are disbursed upon completion of works.
81. Residual risk for safeguards, assessed as moderate, is covered in Section 5 above.

### 8.5 Key Implementation Risks

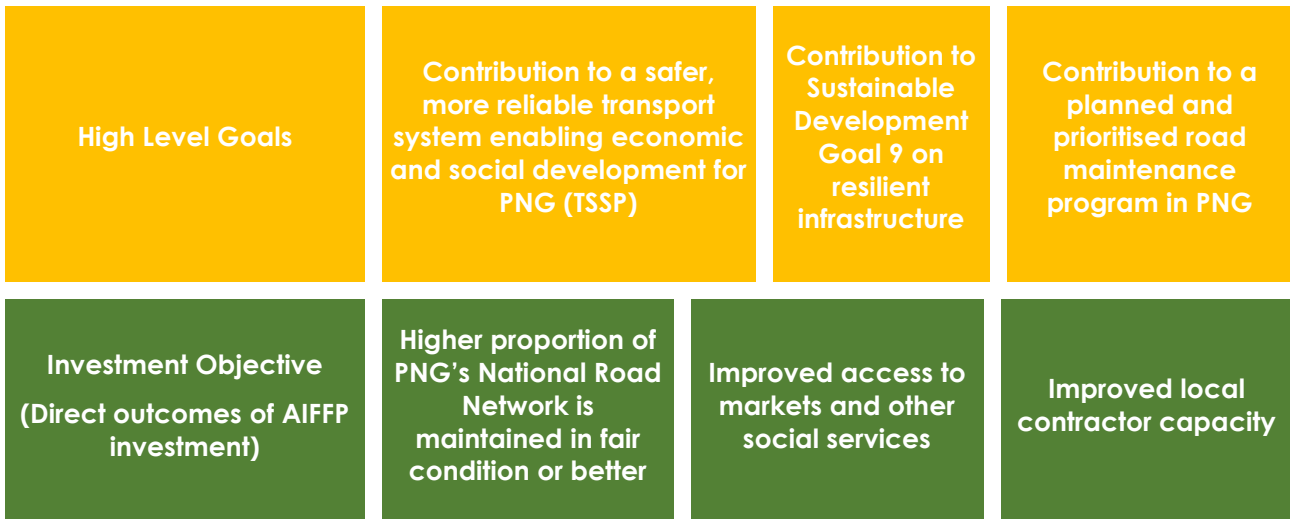
82. Residual implementation risk is rated as **High**.
83. The current national COVID-19 pandemic represents the most severe risk to the project. To the extent possible, local expertise and contractors will be utilised to support project delivery. The project will comply with national restrictions to ensure that its activities do not exacerbate the extent of the outbreak, especially along the Sepik and Wau Highways and adjacent areas.
84. Risks to the successful delivery of the project due to limited resources within DOW are high. To mitigate against this risk, the project will be implemented drawing on TSSP capacity. The second phase of TSSP is due to end in April 2022, and the process to design and commence Phase 3 is

underway. AIFFP is working closely with the bilateral program to ensure there is a smooth transition from TSSP Phase 2 to Phase 3.

## 9. Monitoring & Evaluation

- 85. A draft Monitoring and Evaluation Plan (MEP) has been developed for the project. The MEP includes a M&E Results Framework, which will be reviewed annually by AIFFP (in collaboration with TSSP) and will be updated as required.
- 86. Figure 6 sets out the program logic from the MEP.
- 87. DOW with support from TSSP will be required to provide quarterly progress reports to AIFFP. Subject to the easing of travel restrictions, AIFFP will conduct semi-annual field visits to review project progress and support monitoring and evaluation against the M&E Results Framework. AIFFP is exploring options for staff resources to be based in Port Moresby, which will strengthen its field presence and support project oversight. In the interim, an STM is being progressed and is expected to be mobilised in May 2021, while steps are being taken to recruit a full-time staff. Regular audio or video meetings with stakeholders will also take place as required to monitor implementation.
- 88. Upon completion of the project, the project proponent DOW will be required to submit an investment completion report. AIFFP will also commission an independent evaluation of the investment, within three years after project completion. The findings of the M&E activities will feed into AIFFP’s annual report and DFAT’s performance and quality reporting and may be included in AIFFP or broader DFAT media and communication products.

**Figure 6 - Program Logic**



**Outputs of AIFPP  
Investment**

**387km of  
National  
Roads are  
maintained**

**Feasibility studies  
and detailed designs  
supporting Connect  
PNG completed**

**600 inclusive  
jobs  
created during  
construction**

**Improved  
gender and  
road safety  
awareness**

## 10. Key Project Milestones

KEY MILESTONES	
20 April 2021	AIFFP Board Date
March 2021 June 2021	National Executive Council, PNG
April 2021 to May 2021	Loan negotiations
April 2021	EFA Board Date
June 2021	Australian Government Approval
June 2021	Loan Agreement Execution
2027	Expected project completion