



# Country Operations Business Plan

---

August 2007

Papua New Guinea  
2008–2010

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 31 July 2007)

Currency Unit	–	kina (K)
K1.00	=	\$0.3400
\$1.00	=	K2.941

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CSP	–	country strategy and program
EIA	–	environmental impact assessment
LNG	–	liquefied natural gas
MTDS	–	medium term development strategy
OCR	–	ordinary capital resources
PARD	–	Pacific Department
PNG	–	Papua New Guinea
PNRM	–	Papua New Guinea Resident Mission
PPTA	–	project preparatory technical assistance
TA	–	technical assistance

## NOTE

In this report, "\$" refers to US dollars.

<b>Vice President</b>	C. Lawrence Greenwood, Jr., Operations Group 2
<b>Director General</b>	P. Erquiaga, Director General, Pacific Department (PARD)
<b>Team leader</b>	S. van der Tak, Country Director, Papua New Guinea Resident Mission, PARD
<b>Team members</b>	A. Lee, Principal Portfolio Specialist, PARD M. Minc, Principal Infrastructure Specialist, PARD B. Reid, Financial Management Specialist, PARD

## CONTENTS

	<b>Page</b>
I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY	1
II. INDICATIVE LENDING AND NONLENDING PROGRAMS	1
III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS	2
IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS	2
V. RESULTS-BASED MONITORING	3
VI. COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK	3
TABLES	
1. Indicative Assistance Pipeline for Lending Products, 2008–2010	4
2. Indicative Assistance Pipeline for Nonlending Products and Services, 2008–2010	6
3. Summary Information on Proposed Indicative Lending Products for 2008	7
4. Summary Information on Proposed Indicative Nonlending Products and Services for 2008	8

## I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY

1. The Papua New Guinea (PNG) country strategy and program (CSP)<sup>1</sup> was endorsed by the Board of the Asian Development Bank (ADB) on 25 July 2006 (before the change to “Country Partnership Strategy”). The CSP is based on providing support for implementing the medium term development strategy (2005–2010) of the Government of Papua New Guinea (the Government), tightening the focus of ADB’s strategy and program to (i) maximize the impact on priority areas, (ii) focus on areas of ADB comparative advantage, and (iii) manage for development results. The CSP areas of strategic focus are (i) public financial management, (ii) private sector development, (iii) the transport sector, and (iv) health and HIV/AIDS.<sup>2</sup> In addition, ADB will help address the key issue of reforming public enterprises. Finally, ADB is to provide support, as appropriate, for the PNG Gas Project. The business plan 2008–2010 is fully consistent with the CSP and its priority areas and there have been no changes to the CSP priority sectors or themes. It is also fully consistent with ADB’s Pacific Strategy.<sup>3</sup> ADB will provide assistance in 2007 for financial management and port upgrading and in 2008 for road infrastructure and for the gas project. Other priority sectors are programmed to be covered in 2009–2010.

## II. INDICATIVE LENDING AND NONLENDING PROGRAMS

2. PNG is classified as a Group B2 country, eligible for loans from both ordinary capital resources (OCR) and Asian Development Fund (ADF) resources. Based on the results of the 2006 country performance assessments, applying the performance-based allocation formula, and after reallocation of funds originally allocated to other Pacific developing member countries in excess of their absorptive capacity, the country-specific ADF allocation to PNG for 2007–2008 is now \$66.01 million. The ADF assistance program for 2009–2010 is tentative, with actual ADF assistance levels being subject to the 2007 country performance assessment and subsequent allocation, and to the outcome of the discussions on the next ADF replenishment. In an effort (thus far highly successful) to reduce its debt burden, the Government has been restricting its use of borrowing that is less than fully concessional, thus limiting OCR lending.

3. **2007 Lending Program.** The 2007 program comprises three loans for two projects,<sup>4</sup> with a total of \$49.0 million in ADF lending and \$40.0 million in OCR lending. There is strong Government support for both projects. Processing of both projects remains on track.

4. **2008–2010 Indicative Lending Program.** The indicative cumulative value for the 2008–2010 period is \$247.5 million, of which \$107.5 million is ADF lending. ADF allocation for PNG for 2007–2008 is now at \$66 million. At \$81.5 million, ADF program for 2008–2010 includes a degree of overprogramming. The intention is to fund this excess through ADF savings cancellations and application for funding from the “hard” ADF window, which is likely to be introduced under the revised ADF grants framework under preparation.<sup>5</sup> The OCR lending

---

<sup>1</sup> ADB. 2006. *Country Strategy and Program Papua New Guinea (2006–2010)*. Manila.

<sup>2</sup> Human immunodeficiency virus/acquired immunodeficiency syndrome.

<sup>3</sup> ADB. 2004. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank 2005–2009*. Manila.

<sup>4</sup> Financial Management Supplementary Financing for \$15 million ADF (Board consideration is scheduled for 13 September 2007) and Lae Port Upgrading for \$40 million OCR and \$34 million ADF (Board consideration is scheduled for 19 December 2007).

<sup>5</sup> ADB is in the process of revising the framework for ADB grants. Approval of the new framework, which links grant eligibility to a country’s debt situation, is still pending. The indicative grant program is based on the revised ADB grant framework as presented in the working paper considered by ADB’s Board of Directors on 27 July 2007. The

program for 2008–2010 of \$140.0 million includes \$30.0 million for Highlands Highway (Southern Highlands and Enga Provinces Network) Rehabilitation, \$10.0 million for a power sector project and an indicative \$100.0 million for the PNG Gas Project.<sup>6</sup> ADB and the Government are exploring the option of denominating part, or all, of the OCR lending in kina.

5. **2007 Nonlending Program.** The nonlending program for 2007 comprises grant assistance of \$3.2 million, of which \$1.5 million from the Japan Fund for Poverty Reduction is associated with the Lae Port Development Project. The other 2007 support, all of which has already been approved, comprises assistance for preparing the Lae Port project, for preparing the Highlands Highway (Southern Highlands and Enga Provinces Network) Rehabilitation Project, to support the Government's Public Expenditure Review and Rationalization program, and to help develop a power sector development plan.

6. **2008–2010 Indicative Nonlending Program.** Indicative nonlending assistance averaging \$2.0 million annually has been developed for 2008–2010, for a total of \$6.0 million. Consistent with the CSP, nonlending assistance continues to focus on project preparation, strengthening governance, and improving public sector management.

### III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

7. **Lending Program.** There are no major changes to the lending program, apart from timing. In the later years, new loans have been programmed in the transport sector (a multitranche finance facility, for a total of \$100 million, with \$20 million tranche in 2010) and the power sector; these were envisaged but not yet specifically programmed in the CSP approved in 2006. The program will continue to support the priority sectors identified in the CSP.

8. **Nonlending Program.** There are no significant changes to the nonlending program, apart from adjusting the timing of operations to match evolving needs. One change involves dropping support for developing the nucleus agro-enterprise model; this support is no longer needed, as the model is already being taken up by the private sector. In addition, support for secured transactions reform will be included in other support for private sector development, with separate technical assistance no longer required.

### IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

9. It is estimated that about 139 person-months of professional staff and national officer time will be required to effectively deliver the 2008–2010 lending and nonlending program.

---

grant framework is still subject to further change, which may affect the indicative grant program. Submission of ADF grant projects for Board consideration prior to the approval of the revised grant framework will be on a conditional basis. Should ADB's Board approve such projects, the grant agreement will not be signed until the revised grant framework is approved.

<sup>6</sup> The PNG Gas Project is currently in transition following the project proponents' decision in February 2007 to pursue the concept of a liquefied natural gas (LNG) facility and abandon the concept of a sales gas pipeline to Australia. Until the project proponents reach agreement on arrangements and requirements, financing requirements from ADB are tentatively estimated to be (i) a \$70 million sovereign loan, (ii) a \$30 million standby loan/comprehensive credit guarantee with a counter indemnity, and (iii) \$150 million of limited guarantee covering political and certain other risks; all three will be net of any syndication arrangements pursuant to ADB. 2006. *Review of ADB's Credit Enhancement Operations*. Manila (August).

## **V. RESULTS-BASED MONITORING**

10. The Government is finalizing its performance monitoring framework for implementing the medium term development strategy, with assistance from development partners, notably the Australian Agency for International Development. The Government has been piloting the new framework, and the first annual report on its use is expected to be released in the near future. The framework will be finalized by implementing changes recommended in this annual report. As foreseen in the CSP, it is envisaged that ADB will use the government monitoring framework, once finalized, which will replace the interim framework in the CSP. No changes are required as a result of changes in the assistance programs.

## **VI. COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK**

11. There have been no changes to the country partnership strategy results framework contained in the CSP 2006–2010.

Table 1: Indicative Assistance Pipeline for Lending Products, 2008–2010

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)						
						OCR	ADB		Total	Gov't	Co- financing	
							Loans	Grants				
<b>2008 Firm Loans/Grants</b>												
<b>Transport and Communications</b>												
1. Highlands Highway (Southern Highlands and Enga Provinces Network) Rehabilitation	GI	ECG	PAHQ	2007	90.0	30.0	30.0 <sup>a</sup>	0.0	60.0	30.0	0.0	
<b>Subtotal</b>					<b>90.0</b>	<b>30.0</b>	<b>30.0</b>	<b>0.0</b>	<b>60.0</b>	<b>30.0</b>	<b>0.0</b>	
<b>Total</b>					<b>90.0</b>	<b>30.0</b>	<b>30.0</b>	<b>0.0</b>	<b>60.0</b>	<b>30.0</b>	<b>0.0</b>	
<b>2008 Standby Loans/Grants</b>												
<b>Energy</b>												
1. Gas Project <sup>b</sup>	GI	ECG	PAHQ	2005	tbd	100.0	0.0	0.0	100.0	tbd	tbd	
<b>Subtotal</b>					<b>tbd</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>100.0</b>	<b>tbd</b>	<b>tbd</b>	
<b>Total</b>					<b>tbd</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>100.0</b>	<b>tbd</b>	<b>tbd</b>	
<b>2009 Firm Loans/Grants</b>												
<b>Energy</b>												
1. Gas Project	GI	ECG	PAHQ	2005	tbd	100.0	0.0	0.0	100.0	tbd	tbd	
<b>Subtotal</b>					<b>tbd</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>100.0</b>	<b>tbd</b>	<b>tbd</b>	
<b>Multisector Loans</b>												
1. Private Sector Development and Governance (program cluster approach)	GI	ECG/PSD	PLCO	2006 <sup>c</sup>	42.5	0.0	32.5	0.0	32.5	0.0	10.0	
<b>Subtotal</b>					<b>42.5</b>	<b>0.0</b>	<b>32.5</b>	<b>0.0</b>	<b>32.5</b>	<b>0.0</b>	<b>10.0</b>	
<b>Transport and Communications</b>												
1. Rehabilitation of Maritime Navigation Aids (supplementary loan)	GI	ECG	PAHQ		14.5	0.0	10.0	0.0	10.0	4.5	0.0	
<b>Subtotal</b>					<b>14.5</b>	<b>0.0</b>	<b>10.0</b>	<b>0.0</b>	<b>10.0</b>	<b>4.5</b>	<b>0.0</b>	
<b>Total</b>					<b>tbd</b>	<b>100.0</b>	<b>42.5</b>	<b>0.0</b>	<b>142.5</b>	<b>tbd</b>	<b>tbd</b>	

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
						OCR	ADB		Total	Gov't	Co- financing
							ADF	Loans			
<b>2010 Firm Loans/Grants</b>											
<b>Energy</b>											
1. PNG Power Sector (loan)	GI	ECG/PSD	PAHQ	2008	36.0	10.0	15.0	0.0	25.0	11.0	0.0
<b>Subtotal</b>					<b>36.0</b>	<b>10.0</b>	<b>15.0</b>	<b>0.0</b>	<b>25.0</b>	<b>11.0</b>	<b>0.0</b>
<b>Transport and Communications</b>											
1. Transport MFF <sup>d</sup>	GI	ECG	PAHQ	2009	29.0	0.0	20.0	0.0	20.0	9.0	0.0
<b>Subtotal</b>					<b>29.0</b>	<b>0.0</b>	<b>20.0</b>	<b>0.0</b>	<b>20.0</b>	<b>9.0</b>	<b>0.0</b>
<b>Total</b>					<b>65.0</b>	<b>10.0</b>	<b>35.0</b>	<b>0.0</b>	<b>45.0</b>	<b>20.0</b>	<b>0.0</b>
<b>Total Lending Program 2008-2010</b>					<b>tbd</b>	<b>140.0</b>	<b>107.5</b>	<b>0.0</b>	<b>247.5</b>	<b>tbd</b>	<b>tbd</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, ECG = pro-poor sustainable economic growth, GG = good governance, GI = general intervention, Gov't = Government, MFF = multi-tranche financing facility, OCR = ordinary capital resources, PAHQ = Pacific Operations Division, PLCO = Pacific Liaison and Coordination Office, PSD = private sector development, tbd = to be determined

<sup>a</sup> This includes the reallocation of \$12 million from ADF volume discount for Pacific developing member countries on modified ADF terms.

<sup>b</sup> Until project proponents reach agreement on arrangements and requirements moving forward, financing requirements from ADB are tentatively estimated to be a \$70 million sovereign loan, a \$30 million standby loan/comprehensive credit guarantee with a counter indemnity, and \$150 million of limited guarantee covering political and certain other risks; all three will be net of any syndication arrangements pursuant to ADB. 2006. *Review of ADB's Credit Enhancement Operations*. Policy Paper, Manila, August.

<sup>c</sup> Program preparation is being supported by TA 4722-PNG *Policies for Private Sector Development* (approved on 9 December 2005 for \$1,000,000), and TA 6353-REG *Private Sector Development Initiative* (approved on 21 November 2006 for \$8,700,000).

<sup>d</sup> Total expected MFF amount is \$100 million, with the first tranche of \$20 million.

Source: Asian Development Bank estimates.

Table 2: Indicative Assistance Pipeline for Nonlending Products and Services, 2008–2010

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2008</b>							
<b>Energy</b>							
1. Power Sector Project Preparation	PAHQ	PPTA	JSF	800.0		0.0	800.0
2. Gas Project (supplementary PPTA)	PAHQ	PPTA	TASF	1,000.0		0.0	1,000.0
<b>Subtotal</b>				<b>1,800.0</b>		<b>0.0</b>	<b>1,800.0</b>
<b>Total</b>				<b>1,800.0</b>		<b>0.0</b>	<b>1,800.0</b>
<b>2009</b>							
<b>Health, Nutrition and Social Protection</b>							
1. Health/HIV Sector	PAHQ	PPTA	JSF	1,000.0		0.0	1,000.0
<b>Subtotal</b>				<b>1,000.0</b>		<b>0.0</b>	<b>1,000.0</b>
<b>Transport and Communications</b>							
1. Preparing Transport Sector Multi-tranche Financing Facility	PAHQ	PPTA	JSF	1,000.0		0.0	1,000.0
<b>Subtotal</b>				<b>1,000.0</b>		<b>0.0</b>	<b>1,000.0</b>
<b>Total</b>				<b>2,000.0</b>		<b>0.0</b>	<b>2,000.0</b>
<b>2010</b>							
<b>Law, Economic Management and Public Policy</b>							
1. Public Enterprise Reform Support	PAHQ	ADTA	TASF	600.0		0.0	600.0
2. Financial Management	PAHQ	PPTA	JSF	600.0		0.0	600.0
<b>Subtotal</b>				<b>1,200.0</b>		<b>0.0</b>	<b>1,200.0</b>
<b>Transport and Communications</b>							
1. Transport Sector Support	PAHQ	ADTA	JSF	1,000.0		0.0	1,000.0
<b>Subtotal</b>				<b>1,000.0</b>		<b>0.0</b>	<b>1,000.0</b>
<b>Total</b>				<b>2,200.0</b>		<b>0.0</b>	<b>2,200.0</b>
<b>Total Nonlending Programs 2008-2010</b>				<b>6,000.0</b>		<b>0.0</b>	<b>6,000.0</b>

ADB = Asian Development Bank, ADTA = advisory technical assistance, JSF = Japan Special Fund, JFPR = Japan Fund for Poverty Reduction, PAHQ = Pacific Operations Division, PPTA = project preparatory technical assistance, TASF = Technical Assistance Special Fund, tbd = to be determined  
Source: Asian Development Bank estimates.

**Table 3: Summary Information on Proposed Indicative Lending Products for 2008**

Project Name	Description
Highlands Highway (Southern Highlands and Enga Provinces Network) Rehabilitation	<p><b>Impact</b> The decline in the quality of Papua New Guinea's (PNG) transport infrastructure has adversely impacted service delivery and opportunities for Papua New Guineans to earn cash incomes. Accordingly, in its 2005–2010 medium-term development strategy (MTDS) the Government of PNG (the Government) identified the maintenance and rehabilitation of transport infrastructure as its top expenditure priority. The Highlands region is richly endowed with natural and tourism resources, has good environmental conditions for farming, and is home to almost half of PNG's population. The goal of this project is to assist in restoring the Highlands Highway to transit condition.</p> <p><b>Major Components</b> The project includes rehabilitating about 250 kilometers of road (from Magarima to Koroba) in Southern Highlands Province, along with other important links to the Highlands Highway in Enga Province. The proposed improvements will complete the missing sections of the two provinces' main road networks, which are currently being rehabilitated with funding from ADB loans.</p> <p><b>Expected Outputs and Outcomes</b> The expected outcome of the project is an improved road transport system integrating the Highlands region into the mainstream economy by: (i) reducing average travel time, (ii) increasing traffic volume as projected, (iii) reducing vehicle operating costs, and (iv) increasing rural income in project areas.</p>
PNG Gas Project	<p><b>Impact</b> The project will commercialize the substantial proven reserves of natural gas that have been identified in the PNG Highlands. License holders will commercialize these reserves through the construction of a coastal liquefied natural gas (LNG) facility and related transmission infrastructure. The project will contribute significant fiscal revenues and provide economic and social benefits.</p> <p><b>Major Components</b> The project scope includes (i) developing new gas fields in the Southern Highlands Province, (ii) converting existing oil fields to gas production, (iii) developing a new gas conditioning facility at Kutubu, (iv) construction of an LNG facility and associated infrastructure, and (v) establishing necessary pipeline infrastructure.</p> <p><b>Expected Outputs and Outcomes</b> Over a 30-year period the project is likely to produce and carry about 1,000 million standard cubic feet per day of natural gas to an LNG facility, which will produce over 6 million tonnes per annum. The project is expected also to produce over 220 million barrels of associated liquids (excluding liquefied petroleum gases).</p>

Source: Asian Development Bank.

**Table 4: Summary Information on Proposed Indicative Nonlending Products and Services for 2008**

Project Name	Description
<p>PNG Gas Project (supplementary project preparatory technical assistance; PPTA)</p>	<p><b>Impact</b> Technical assistance (TA) for Preparing the PNG Gas Project, for \$1,000,000, was approved in December 2005 with the goal of agreeing upon the project design, which centered initially on the construction of a sales gas pipeline from PNG to Australia. In February 2007, license holders abandoned the concept of a pipeline to Australia in favor of an LNG concept. The PPTA will support the development of an agreed design for the revised project, which will contribute significant fiscal revenues and provide economic and social benefits.</p> <p><b>Major Components</b> Building on the Preparing the PNG Gas Project TA results, this TA project will undertake due diligence on (i) environment assessment; (ii) involuntary settlement and social issues; and (iii) economic, fiscal, and financial management issues. The TA will explore project fundamentals to ensure that any ADB-funded government participation will be robust and meet appropriate economic, social and financial criteria, and comply with ADB safeguards. The TA will involve substantial consultations with government agencies, communities and project proponents.</p> <p><b>Expected Outputs and Outcomes</b> TA outputs will include (i) a sound environment impact assessment (EIA) and summary EIA; (ii) a sound indigenous people's development plan and involuntary resettlement plan; (iii) robust economic and financial analyses; (iv) a sound revenue management design, including well-defined and effective benefit distribution arrangements; and (v) a technical viability review.</p>
<p>Power Sector Project Preparation</p>	<p><b>Impact</b> In PNG more than 90% of the population has no electricity. Even in the main urban centers, the power supply is often unreliable. The goal of this project is to increase the availability of a reliable and sustainable power supply at reasonable cost.</p> <p><b>Major Components</b> The major components of the TA will include (i) a power demand forecast and least-cost development strategy, (ii) environment impact assessment, (iii) poverty and social analysis, and (iv) plan to address environmental, social and resettlement issues.</p> <p><b>Expected Outputs and Outcomes</b> Preparation of a feasibility study for a power sector project suitable for financing by ADB or other external funding agencies and assessment of its long-term sustainability.</p>

Source: Asian Development Bank.