

## Country Operations Business Plan: Papua New Guinea 2017-2019

### Summary Information on Proposed Indicative Lending and Nonlending Products

Lending Products	
Project Name	Description
<b>Highlands Highway Program (tranche 1) – 2017 Firm</b>	<p><b>Impact:</b> The program is aligned with national strategies to improve access to health, education and standard of living of the people of PNG, increase opportunities for equality and prosperity in rural areas and provide well integrated, safe, financially and environmentally sustainable transport systems.</p> <p><b>Rationale</b> The mountainous terrain, poor highway conditions, washouts and landslides common during the rainy season make the highway unreliable and impassable at times. With climate change the frequency of extreme rain events are projected to increase. More than 70% of the highway is in fair or poor condition and for 90% the safety rating for vehicle occupants and pedestrians is 2 star and below. High-potential agricultural products from the region bear high trade costs, limiting access to domestic and international markets. Poor road conditions and lack of adequate transport accessibility and services infrastructure such as bus stations and rest stops, and absence of logistic facilities for agricultural products restrict value chains to develop. These are major constraints on the region's social and economic development and sustainable growth.</p> <p><b>Expected Outcomes and Outputs</b> The expected outcome of the program is efficient and safe movement of people, goods and services between the Highlands region and domestic and international markets. The investment and maintenance program is proposed to have four main outputs comprising: (i) The 450 kilometers of 2-lane rural Highlands Highway from Lae Nadzab airport to Kagamuga airport at Mt. Hagen, is restored, upgraded and effectively maintained, as required to be safe, climate- and disaster resilient for all users; (ii) road safety increased and sustained for pedestrians and vehicle passengers on the Highlands Highway; (iii) transport logistics and services improved in the Highlands region to strengthen value chain for domestic and international trade; and (iv) program management and institutional capacity improved to deliver the program and sustain its benefits. Project 1 (of the MFF) financing is expected total \$240 million to rehabilitate about 70 kms of roads and 15 bridges, drainage and road safety improvements, 8-10 km of climbing lanes under output 1, 2 and 4.</p>
<b>Alotao Port Climate Proofing Project (additional financing to BRCC) – 2017 Firm</b>	<p><b>Impact:</b> Increased resilience to climate change</p> <p><b>Rationale:</b> The Milne Bay Province is fully reliant on the provincial wharf for fuel supplies as it provides the only access point for discharge of fuel for fuel tankers that call fortnightly. One third of the population resides in Alotau, and the remaining two-thirds of the provincial population resides in the outer island districts. These communities and economies are fully dependent on the wharf for access to essential services and trade with Alotau district. Small and medium cargo and passenger vessels from the outer islands call daily at the provincial wharf to access markets, jobs and essential services in the capital district of Alotau. However, the wharf is vulnerable to the adverse effects of climate change, especially sea level rise and storm surges. The provincial government confirms that the wharf is in urgent need of rehabilitation and climate proofing.</p>

	<p><b>Expected Outcomes and Outputs:</b> Enhanced capacity of provincial government to plan and respond to the impacts of climate change. Provincial wharf of Alotau climate proofed training provided to provincial government to operate and maintain the wharf.</p>
<p><b>Safeguarding Social Development Outlay – 2017 standby</b></p>	<p><b>Rationale:</b> The protracted downturn in global commodity prices since 2014, upon which PNG is highly reliant for growth and, directly and indirectly, for domestic resource mobilization, is expected to continue in the short to medium-term and increases the risks to the country's macroeconomic and fiscal position. This has necessitated reprioritization of expenditure. To avoid significant negative impact on growth, basic service delivery and development outcomes for PNG's population, budget cuts have to be carefully targeted and public spending on development priorities, including health and education, safeguarded. ADB is working with IMF, World Bank, Australia, E.U. and other development partners to assist the Government to achieve calibrated fiscal consolidation. The proposed policy based loan will seek to protect expenditures that are critical for the delivery of basic services (health and education), and support expenditure reform measures of the Government.</p>
<p><b>Highlands Highway (tranche 2) – 2018 Firm</b></p>	<p><b>Impact:</b> The program is aligned with national strategies to improve access to health, education and standard of living of the people of PNG, increase opportunities for equality and prosperity in rural areas and provide well integrated, safe, financially and environmentally sustainable transport systems.</p> <p><b>Rationale</b> The mountainous terrain, poor highway conditions, washouts and landslides common during the rainy season make the highway unreliable and impassable at times. With climate change the frequency of extreme rain events are projected to increase. More than 70% of the highway is in fair or poor condition and for 90% the safety rating for vehicle occupants and pedestrians is 2 star and below. High-potential agricultural products from the region bear high trade costs, limiting access to domestic and international markets. Poor road conditions and lack of adequate transport accessibility and services infrastructure such as bus stations and rest stops, and absence of logistic facilities for agricultural products restrict value chains to develop. These are major constraints on the region's social and economic development and sustainable growth.</p> <p><b>Expected Outcomes and Outputs</b> The expected outcome of the program is efficient and safe movement of people, goods and services between the Highlands region and domestic and international markets. The investment and maintenance program is proposed to have four main outputs comprising: (i) The 450 kilometers of 2-lane rural Highlands Highway from Lae Nadzab airport to Kagamuga airport at Mt. Hagen, is restored, upgraded and effectively maintained, as required to be safe, climate- and disaster resilient for all users; (ii) road safety increased and sustained for pedestrians and vehicle passengers on the Highlands Highway; (iii) transport logistics and services improved in the Highlands region to strengthen value chain for domestic and international trade; and (iv) program management and institutional capacity improved to deliver the program and sustain its benefits. Project 1 (of the MFF) financing is expected total \$240 million to rehabilitate about 70 kms of roads and 15 bridges, drainage and road safety improvements, 8-10 km of climbing lanes under output 1, 2 and 4.</p>
<p><b>Rural Primary Health Services Development Program (phase 2) –</b></p>	<p><b>Impact:</b> The Rural Primary Health Service Delivery Project (Phase 2) will improve essential population health level and distribution in targeted provinces.</p> <p><b>Rationale:</b></p>

<b>2018 Firm</b>	<p>Primary healthcare is essential for a strong and efficient health system. The existing healthcare infrastructure (buildings, human resources and staff) across Papua New Guinea is variable in both quality and effectiveness, and does not always meet the basic healthcare needs of the population. The health information system in its current paper based form, does not provide accurate and timely data for decision making.</p> <p><b>Expected Outcomes and Outputs:</b> The investment will build on the existing project by strengthening key health system functions of human resource training, information systems, and infrastructure for more integrated and coordinated primary care in targeted provinces. Outputs will include (i) upgraded health infrastructure (ii) improved health information systems through ICT, and (iii) capacity building for service delivery and management.</p>
<b>Civil Aviation Development Investment Program Phase 2 – 2018 Firm</b>	<p><b>Impact:</b> The Civil Aviation Development Investment Program (phase 2) will help increase connectivity and service delivery to remote parts of the country, as well as facilitate inclusive economic growth and reduce poverty in project areas.</p> <p><b>Rationale</b> The investment programs will respond to investment priorities identified by the Government's National Airports Development Strategic Plan. Air connectivity is particularly important for economic and social development in PNG because of difficult surface transport conditions in much of the country and its archipelagic nature. While substantial external assistance is now allocated for airport safety and security, airport rehabilitation and improvement is under-funded (air services cannot be upgraded in line with demand and aircraft availability). The investment program will help upgrade air connectivity between national and provincial centers.</p> <p><b>Expected Outcomes and Outputs</b> The investment program will upgrade rural air strip and regional hub airport. It will bring safer, more efficient and more accessible all-weather air transport services to the project areas. The investment program will reform civil aviation institutions, improve civil aviation infrastructure. It will help strengthen response to disasters and build resilience to climate change.</p>
<b>Power Development – 2018 Firm</b>	<p><b>Impact:</b> The Power Development Project will improve socio-economic conditions of targeted urban and peri-urban areas.</p> <p><b>Rationale:</b> Only around 10% of Papua New Guineans have access to electricity. The existing grids require significant investment to support rapid economic development and to extend the supply of electricity to the broader population.</p> <p><b>Expected Outcomes and Outputs:</b> The investment program will bring improved utilization of reliable, clean power to urban and peri-urban centers. Outputs will be (i) installed or upgraded generation capacity, including renewable energy (ii) transmission and distribution, and (iii) capacity built in PNG Power Limited (PPL) and amongst project beneficiaries.</p>
<b>District Town and Water Sanitation Project – 2018 Firm</b>	<p><b>Impact:</b> Reduced incidence of waterborne disease in district towns.</p> <p><b>Rationale:</b> PNG did not meet the Millennium Development Goals for access to improved water supply and sanitation and is off-track to meet its own targets of 70% access by 2030 and 100% access by 2050. Just 40% of the population has access to improved drinking water supplies, and 19% to improved sanitation. Intervention is needed to help provide acceptable services to existing customer bases as well as to settlement communities in district towns, which</p>

	<p>are growing rapidly.</p> <p><b>Expected Outcomes and Outputs:</b> The investment will achieve increased access to improved water supplies and sanitation in district towns, via (i) Priority investments undertaken in water supply; (ii) Priority investments undertaken in sanitation; (iii) Improved WASH practices among district town populations; and (iv) Improved capacity of Water PNG and other agencies to deliver sustainable water supply and sanitation services.</p>
<p><b>Highlands Highway (tranche 2) – 2019 Firm</b></p>	<p><b>Impact:</b> The program is aligned with national strategies to improve access to health, education and standard of living of the people of PNG, increase opportunities for equality and prosperity in rural areas and provide well integrated, safe, financially and environmentally sustainable transport systems.</p> <p><b>Rationale</b> The mountainous terrain, poor highway conditions, washouts and landslides common during the rainy season make the highway unreliable and impassable at times. With climate change the frequency of extreme rain events are projected to increase. More than 70% of the highway is in fair or poor condition and for 90% the safety rating for vehicle occupants and pedestrians is 2 star and below. High-potential agricultural products from the region bear high trade costs, limiting access to domestic and international markets. Poor road conditions and lack of adequate transport accessibility and services infrastructure such as bus stations and rest stops, and absence of logistic facilities for agricultural products restrict value chains to develop. These are major constraints on the region's social and economic development and sustainable growth.</p> <p><b>Expected Outcomes and Outputs</b> The expected outcome of the program is efficient and safe movement of people, goods and services between the Highlands region and domestic and international markets. The investment and maintenance program is proposed to have four main outputs comprising: (i) The 450 kilometers of 2-lane rural Highlands Highway from Lae Nadzab airport to Kagamuga airport at Mt. Hagen, is restored, upgraded and effectively maintained, as required to be safe, climate- and disaster resilient for all users; (ii) road safety increased and sustained for pedestrians and vehicle passengers on the Highlands Highway; (iii) transport logistics and services improved in the Highlands region to strengthen value chain for domestic and international trade; and (iv) program management and institutional capacity improved to deliver the program and sustain its benefits. Project 1 (of the MFF) financing is expected total \$240 million to rehabilitate about 70 kms of roads and 15 bridges, drainage and road safety improvements, 8-10 km of climbing lanes under output 1, 2 and 4.</p>
<p><b>Land and Maritime Regional Trade Corridor (tranche 1) – 2019 Firm</b></p>	<p><b>Impact:</b> The project will reduce transportation costs at the national and international levels strengthen supply chain management, logistics flows and distribution and will improve access to employment opportunities, as well as to education and health services.</p> <p><b>Rationale:</b> The Government has approached the Asian Development Bank (ADB) for financial and technical support for the establishment of economic, transport and maritime corridors between Papua New Guinea (PNG) and Indonesia (INO). This aims at linking Pacific with Asia in line with GoPNG intention to make PNG as a hub for Pacific trades.</p> <p><b>Expected Outcomes and Outputs:</b> The program will include upgrading of port facilities and road networks along the coastal region in the north bordering with Indonesia (INO) and connecting road between hinterland (Ramu Highway) and</p>

	highlands (Highlands Highway) regions. The 2-lane road section of about 300 kilometers (km) will be improved to international road network standard. Improvements to these infrastructures would dramatically improve connectivity within PNG, between INO – PNG and regionally between Asia and Pacific. It also aims at improving investment environment for inducing lower prices through increased trades in PNG. The project is well aligned with the development agenda of ADB's Strategy 2020 to support regional trade and integration and inclusive development.
<b>Nonlending Products</b>	
<b>Assistance Name</b>	<b>Description</b>
<b>Power Development Project PPTA – 2017</b>	Energy demand is currently outstripping supply on the main power grids in PNG. The TA will assist with Government plans to address the power supply constraints through development of priority generation infrastructure in accordance with Government development plans. The TA will include support to PNG Power Limited, the IPBC and other involved government agencies for feasibility studies for an infrastructure investment project suitable for possible ADB (partial) financing.
<b>Preparing rural primary health development program phase 2 - 2017</b>	There is limited fiscal space for the health sector in PNG. With the ongoing decentralization it is uncertain how much funding will go to the health sector at the district and provincial level for primary healthcare. The TA will assist with Government plans to provide essential health services in underserved areas. The TA will include an economic analysis to support informed investment decisions in the health sector.
<b>Preparing Land and Maritime Regional Transport and Trade Corridor Program - 2017</b>	Increasing regional connectivity and integration is a core agenda of PNG's National Transport Strategy, and is also the theme of the 2018 APEC Summit to be held in PNG. The proposed initiative will improve links between Indonesia and PNG as well and PNG with Solomon Island through transport and maritime economic corridor. This is to complement the ongoing PNG: Pilot Border Project situated at the border with Indonesia and the ongoing Highland Region Road Improvement Investment (HRRIP) projects. The proposed TA will help conduct feasibility study for the program.