



**LOAN 1709-PNG: ROAD MAINTENANCE AND UPGRADING (SECTOR) PROJECT
LOANS 2242/2243-PNG: ROAD MAINTENANCE AND UPGRADING PROJECT
(SUPPLEMENTARY LOANS)**

EXECUTIVE SUMMARY

1.0 INTRODUCTION

This report is basically to inform the Government's core Departments especially the Department of National Planning and Monitoring, Department of Treasury and Transport Department of the overall financing and status of the ADB Loan 1709 and Supplementary Loans (2242/2243) Projects.

The Loan 1709 became effective in 2000 for six years period but the Loan closing date was extended twice. The original Loan Closing date of 30th June 2006 was extended to 30th June 2008 in 2004 and further extended to 30th June 2010 in year 2007. The current Loan 1709 closing date is 30 June 2010 and we are preparing to award 4 remaining contracts before the Loan closes.

The two extensions were necessary in order to implement the project successfully. The main reasons prompted for the extensions were as follows:

1. Insufficient GoPNG Counter-Part funds provided to draw down the Loan.
2. Delay in the detail Survey and Design of the road projects.
3. Lack of Contractor's capacity from 2000 to 2004.

The above 3 points are the main factors contributed to the extension of the Loan. The consequences of the extension have cost the Government of PNG millions of Kinas additional to complete the same scope. The reasons for the additional cost are;

1. Cost of Materials and equipment has drastically increased.
2. No Competition due to lack of reputable contractors

3. Contract Variations due to out dated date and scope as the conditions changed from the initial scoping, Survey and Design Stage to actual implementation (say average 3 years gap).

The cost escalation has forced us to reduce the original scope of Loan 1709 and two Supplementary Loans (2242/2243) were taken to complete the original scope of Loan 1709.

The Supplementary Loans Project was approved on 29 June 2006. The Loan Agreements were signed on 13 September 2006 and became effective on 9 November 2006.

The Objective of Loan 2242/2243 was to scale up the impact of Loan 1709 approved by ADB in 1999 on PNG economic development and social integration by financing more road sections to (i) improve road access for the private businesses and communities, (ii) reduce their travel costs and time to major commercial and service centers, and (iii) enable them to tap economic and social opportunities in the Highlands. It will support the Government's efforts to enhance export-led economic growth, generate income for local communities, and reduce poverty.

2.0 REASONS FOR LOAN EXTENDED

2.1 Insufficient GoPNG Counter-Part funds provided to draw down the Loan.

The Loan 1709 became effective in year 2000 and since then from year 2000 to 2005, the GoPNG Counterpart funding was not sufficient to implement projects as schedule. The ADB and DoW has raised the concern of insufficient Counter-part funding but due to funding difficulties faced by the Government, DoW did not receive the requested funds for the projects. The Government in 2006 has increased the GoPNG counter Part Funding and most of the projects were implemented now. The Summary GoPNG annual Counter-Part allocation and ADB Loan Draw Downs is shown on Table: 1. The summary with the total receipts and total payments is shown in Table 2A. **Table 1 & 2 represents the Overall Expenditure and Draw Downs.**

Table: 1 Summary of Annual Allocations and Draw Downs (in Kina).

YEAR	GoPNG PAYMENTS	ADB PAYMENTS	TOTAL PAYMENTS
2000	-	-	-
2001	2,318,052	-	2,318,052
2002	11,087,865	994,349	12,082,214
2003	17,366,006	998,386	18,364,392
2004	15,765,013	3,564,988	19,330,001
2005	8,583,434	13,254,201	21,837,635
2006	28,917,953	2,207,484	31,125,437
2007	52,309,816	19,136,460	71,446,275
2008	72,390,852	24,743,635	97,134,488
2009	4,016,626	9,005,875	13,022,501
2010	-	-	-
	212,755,616	73,905,379	286,660,995

Table 2A. Total Receipts and Payments (in PGK)

YEAR	OP. BALANCE	RECEIPTS	PAYMENTS	CLO BALANCE
2001	6,149,035	12,140,000	2,318,052	15,970,983
2002	15,970,983	4,981,221	12,082,214	8,869,990
2003	8,869,990	26,462,931	18,364,392	16,968,529
2004	16,968,529	26,416,947	19,330,001	24,055,475
2005	24,055,475	35,732,011	21,837,635	37,949,851
2006	37,949,851	86,832,553	31,125,437	93,656,967
2007	93,656,967	46,551,746	71,446,275	68,762,438
2008	68,762,438	81,295,578	97,134,488	52,923,528
2009	52,923,528	18,662,353	13,022,501	58,563,380
2010				
		345,224,375	286,660,995	58,563,380

Source: Bank Statement

The table 2B shows the ADB Direct Reimbursement into the Trust Account – ADB Loan 1709 as per the Audit Report in Attachment 1 (Year 2006 -2008) and details in the Bank Statement in Attachment 2.

Table 2B. ADB DIRECT REIMBURSEMENTS INTO TRUST ACCOUNT - ADB 1709

YEAR	RECEIPTS	As per Report	Difference
2001			
2002	994,349	994,349	-
2003	998,386	998,386	-
2004	3,564,988	3,564,988	-
2005	13,254,201	13,254,201	-
2006	2,207,484	2,207,484	-
2007	19,136,460	19,136,460	-
2008	24,743,635	24,743,635	-
2009	9,005,875	9,005,875	-
2010			
	73,905,380	73,905,380	-

Source: Bank Statement

2.2 Delay in the detail Survey and Design of the road projects.

In the initial stage, Surveys and designs were done by not carried out effectively due to the lack of specialist people. Only templates were used for most projects assuming that we are only improving or maintaining the existing roads without major changes. As times passed, this hasn't worked out as contractors v disputing that there should have been detail design. Therefore, detailed survey and design has started but took almost six months to complete one road and that has delayed the implementation. The detail survey and design should have been in year 2001 and onwards. On the other hand, Project that have surveyed and designed in detailed were than not implemented within two years due to lack of GoPNG counter part Funding. As soon as the Counter-part funding became available, the road condition has changed and the cost has doubled. That has put the Executing Agency in a very difficult situation to review the original scope to cater for the additional scope with additional cost.

2.3 Lack of Contractor's capacity.

The contractor's capacity was not there to take up the projects although several projects were tendered consecutively after sufficient Counter –Part funding was received from 2006 and onwards. This has contributed towards the delay of the overall project performance.

3.0 OVERALL PROJECT IMPLEMENTATION STATUS AND RESTRUCTURING OF PROJECT MANAGEMENT UNIT (HRMG).

3.1 Overall Project Implementation Status

After the Loan 1709 became effective in year 2000, only 19km length of road which represents 4% of the total 481.83km length has been completed and 63.0km completed in total from 2003 to 2007. Table 4 illustrates the annual achievement.

Table 4. Projects Completed per Year

Year	Length (km)	% completed	Amount (k)	Cumulative % completed	Cumulative Amount (k)
2003	19.35	4.0	9,323,349.05	4.0	9,323,349.05
2004	12.80	2.7	11,672,577.90	6.7	20,995,926.95
2005	10.00	2.1	4,896,158.60	8.7	25,892,085.55
2006	0	0.0	0	8.7	25,892,085.55
2007	21.45	4.5	37631190.77	13.2	63,523,276.32
2008	19.83	4.1	0	17.3	63,523,276.32
2009	129.04	26.8	68,141,919.79	44.1	131,665,196.11
2010	95.82	19.9	102,625,489.92	64.0	234,290,686.03
2011	173.54	36.0	141,044,514.06	100.0	375,335,200.09
	481.83	100.00	375,335,200.09		

The Overall project implementation status is illustrated in Attachment 3.

3.2 Restructuring of the Project Management Unit

In 2007 after the change of DoW management and its Ministry, the following actions were taken in order to effectively deliver the projects:

- The consultants' responsibility as Implementation Advisor has been changed and they were delegated the Engineers' responsibility to take full control of the projects in each province.
- The Project Director position was created and an officer was appointed to coordinate ADB funded projects like wise to other donor funded road projects. This position was not established before and therefore resulted in no proper coordination to effectively monitor the day to day activities that has resulted in completing only 13.2% (63.10km) of the total Loan 1709 projects of road length 481.83 Km.
- We have completed 20km in 2008 and are expected to complete 100km this year.

4.0 PROJECTIONS

4.1 Expenditure for 2008

The expenditure per year has increased from the commencement of the projects in year 2000 to 2009 as the award of contracts increases per year. The total expenditure for 2008 alone was K98.528 Million or almost K100million including both ADB and GoPNG Counter-Part funding. Attachment 4 shows the 2008 Project Expenditure. This indicated that we our expenditure for 2009 would be more than K100 million. The details projections are in Attachment 4. Summary of Expenditure in 2008 is shown in Appendix 1 of Attachment 3.

4.2 Projections for 2009 - 2012

The Projections in Table 4 illustrates the GoPNG Count Part Funding Required for this year and next three years. We need K22million additional to the actual budget allocation for year 2009.

Table 4. Projections for Year 2009 – 2012 for the GoPNG Funding for Supplementary Loans (2242/2243) Projects.

S.No	Names of the Projects	2009 Amount (K)	2010 Amount (K)	2011 Amount (K)	2012 Amount (K)
1	a. Rypinka - Okapa Back Road	-	5,000,000	7,000,000	7,005,405
2	b. Okapa Back Road - Okapa Station	-	-	6,000,000	6,824,324
3	Goroka - Lahame	1,500,000	3,500,000	2,016,472	-
4	a. Kamaliki - Bekuvia Bridge	4,000,000	5,000,000	5,000,000	4,109,425
5	b. Bekuvia Bridge - Move	-	3,000,000	3,000,000	4,682,432
6	Kindeng - Kondepena	1,129,501	-	-	-
7	a. Banz Town - Karameng	2,000,514	-	-	-
8	b. Karameng - Dona	2,813,485	-	-	-
9	Gewa - Gembogl	-	4,000,000	5,000,000	4,605,405
10	Kerowagi - Dona	-	9,000,000	9,000,000	10,120,000
11	Korininge - Kerowagi	1,314,751	-	-	-
12	Warumanda - Lame Bridge	-	3,000,000	2,000,000	797,297
13	Lame Bridge - Laiagam (2A)	2,000,000	4,000,000	4,000,000	869,924
14	Lame Bridge - Laiagam (2B)	2,000,000	4,000,000	3,000,000	931,142
15	a. Ialibu - Seven Corners	-	3,000,000	4,000,000	4,418,919
16	b. Seven Corners - Kauga	2,584,219	-	-	-
17	Ialibu - Pangia	2,073,224	3,000,000	-	-
	Balance to be draw-down in each year	21,415,694	51,500,000	50,016,472	44,364,273

4.3 Supplementary Loan 2242/2243 Extension of Loan closing date from 30th June 2010 to 30th December 2012 of Projections for 2009 – 2012

From the projections and Work plans, the projects are programmed to be completed in 2012 and therefore an extension to the Supplementary would be requested in order to complete the projects successfully. The Projects Implementation Plan is shown Appendix 3 of Attachment 3. Apart from the Loan repayment, the Government of PNG will pay additional for commitment charges if the Loans are extended and amount can be calculated by Treasury Department.

5.0 ADDITIONAL GOPNG COUNTER-PART FUNDING NEEDED.

The total additional funding required completing all projects in Original Loan 1709 and Supplementary Loan 2242/2243 and GoPNG fully funded projects is K320million. Refer to details in Appendix 2 of Attachment 4.

6.0 RECOMMENDATION

With the above brief explanation together with supported document covering the overall expenditure, Implementation progress and projections, I recommend that:

- (i) the Loan 1709 be closed on the Loan closing date of 30th June 2010 and reallocate unused funds on additional cost for on going projects. The final reallocation is schedule to be held in November 2009 in consultation with the Bank.
- (ii) the two Supplementary Loans (2242/2243) be extended from Loan Closing date of 30th June 2010 to 30th December 2012 so the supplementary projects may be completed successfully as shown on the Implementation Plan provided in Attachment 3 (Appendix 3).
- (iii) the Government to provide sufficient GoPNG Counter part Funding to draw down the Loan.
- (iv) For the New MMF Loan became effective on the 18th of May 2009, as experienced from existing Loans (1709/2242/2243), the Government of PNG should provide Sufficient Counter-part Funding at the beginning of the Loan Draw Downs so that Projects can be implemented on time and avoid the delays.