

Report No. 20183

Papua New Guinea

Country Assistance Evaluation

March 6, 2000

Operations Evaluation Department

Document of the World Bank

Abbreviations and Acronyms

ADB	Asian Development Bank
AFR	Africa Region
AusAID	Australian Agency for International Development
CAN	Country Assistance Note
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CG	Consultative Group
EAP	East Asia and the Pacific Region
EEC	European Economic Community
ESW	Economic and Sector Work
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GNP	Gross National Product
GOPNG	Government of Papua New Guinea
GRA	Gazelle Rehabilitation Authority
ICR	Implementation Completion Report
ID	Institutional Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MIGA	Multilateral Investment Guarantee Agency
MP	Member of Parliament
NGO	Nongovernmental Organization
ODA	Overseas Development Assistance (UK)
OED	Operations Evaluation Department
PAR	Performance Audit Report
PBD	Planning and Budgeting Department
PCR	Project Completion Report
PNG	Papua New Guinea
SAL	Structural Adjustment Loan
SIDA	Swedish International Development Agency
TA	Technical Assistance
TCDP	Targeted Community Development Program
UNDP	United Nations Development Program

Director-General, Operations Evaluation	:	Mr. Robert Picciotto
Director, Operations Evaluation Department	:	Ms. Elizabeth McAllister
Manager, OEDCR	:	Mr. Ruben Lamdany
Task Manager	:	Mr. Asita De Silva
Peer Reviewer	:	Ms. Alice Galenson
Peer Reviewer	:	Ms. Susan Stout

March 6, 2000

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

PAPUA NEW GUINEA - COUNTRY ASSISTANCE EVALUATION

Papua New Guinea (PNG) is a lower middle-income country in the western Pacific. It has a rich natural resource base that includes deposits of gold, oil, copper and gas; a vast fishing zone; fertile soil; extensive tropical forests; and attractive sites for tourism development. It has a population of 4.5 million and a per capita income of US\$890. However, PNG's social indicators compare to those of much poorer countries. In rural areas, where 80 percent of the people live, GDP is estimated to be US\$350 per capita. Major development constraints include a lack of national cohesion; rugged terrain; an ineffective and politicized civil service; lack of law and order; political instability; and a complex system of land ownership.

Despite a boom in mineral exports and substantial financial, technical, and advisory assistance from the Bank and other donors during the 1990s, PNG's development objectives were hardly advanced during the decade. The country was unable to maintain macro-stability; fiscal management remains weak; growth in the non-mineral sector—particularly agriculture—stagnated; limited progress was made in improving infrastructure; access to social services remains low; capacity-building efforts had doubtful long-term impact; and questions continue to surround the sustainability of natural resource use. Social indicators in the 1990s were stagnant or barely improved and remain well below those of similar-income countries.

Drought and the East Asian crisis brought about some setbacks in the 1990s, although a key factor behind the lack of progress was limited political will to consistently implement the reform agenda. A number of policy and project initiatives were not fully implemented, subsequently reversed, or allowed to lapse without follow-up. Weak fiscal management had a broad negative impact on the delivery of basic social services and infrastructure. Periodic surges in mineral exports relieved the pressure to reform. Limited consensus-building among stakeholders caused resistance to some reforms that eroded political commitment. Increased politicization, frequent changes in senior officials, and organizational and managerial weaknesses rendered the civil service increasingly ineffective. Constant change in policy directions and in key officials reduced investor confidence in the economy. Allegations of corruption and mismanagement in the public sector clouded the environment for both public and private investment.

In this context, the Bank was unable to make a significant contribution to PNG's development in the 1990s. On the positive side, after 1994, it focused on policy issues rather than adding to the set of poorly performing physical investments; it produced good economic and sector work; and it made a positive effort to engage NGOs. At the same time, however, Bank investment projects of the early 1990s displayed unrealistic optimism given extensive policy constraints and weak institutions. The Bank's approach to civil service reform was limited to the fiscal implications of the wage bill and did not deal with underlying weaknesses of poor public service delivery. Bank attention to the country was inconsistent. Periods of intense activity were followed by inactivity, undermining the Bank's impact. Inadequate sensitivity to local-level perceptions and political needs constrained its effectiveness. Absence of a resident mission weakened the Bank's responsiveness and mitigated against timely resolution of implementation constraints.

The outcome of Bank assistance to PNG over the past decade is assessed as unsatisfactory, institutional development impact modest, and sustainability uncertain. To assist PNG in the future, the Bank should (i) sustain its non-lending services and establish a field presence, even though minimal lending is expected; (ii) collaborate with the government and other donors to help develop a long-term strategy to support capacity-building and the consistent implementation of key reforms; and (iii) assist in public dissemination of country assistance objectives to broaden consensus and build ownership of reforms.

Contents

1. Economic and Social Development in the 1990s	1
2. Bank Assistance to PNG Since 1989.....	2
3. The Bank's Contribution to Development.....	5
Maintaining Macroeconomic Stability	5
Stimulating the Non-Mineral Economy.....	6
Improving Access to Basic Social Services.....	7
Ensuring a Sustainable Use of Natural Resources.....	8
Building Institutional Capacity.....	9
4. Performance Assessment.....	9
Outcome: Unsatisfactory	9
Institutional Development Impact: Modest	10
Sustainability: Uncertain.....	10
Bank Performance.....	11
5. Lessons and Recommendations	11
6. Current Draft CAS	13

Annexes

1. MIGA's Experience in Papua New Guinea	14
2. People Interviewed During Evaluation Mission	15
3. Management Action Record	17

Annex Tables

Table 1. Key Economic and Social Indicators, 1989-1998	23
Table 2. Key Economic Indicators: PNG and Comparator Countries, 1988-1997.....	25
Table 3. Changes in the Structure of Production	26
Table 4. Composition of Exports (% of total export value).....	27
Table 5. Performance Ratings of Completed Projects	28
Table 6. Formal Bank Economic and Sector Work, FY89-FY99.....	29
Table 7. Completed and Active Projects, FY89-FY99.....	30
Table 8. Bank Assistance Cost Indicators.....	31
Table 9. Bank Management for PNG, 1990-1999	32
Table 10. List of all Completed Projects in PNG	33
Table 11. Average Project Performance Indexes, FY89-99	34
Attachment: Report from CODE.....	35

This report was written by Asita De Silva (Evaluation Officer). It draws on interviews with past and present Bank staff and an evaluation mission to Papua New Guinea in June 1999. The report was shared with the Borrower. It incorporates comments received from the Country Department. Norma Namisato provided administrative support.

1. Economic and Social Development in the 1990s

1.1 *The PNG context.* Papua New Guinea (PNG) is a country in the western Pacific with a rich natural resource base but low human development. Its natural endowment includes reserves of gas, copper, gold, and oil; an extensive fishing zone; fertile soil and favorable climates; extensive tropical forests; large hydropower potential; and attractive sites for tourism development. It has a population of 4.5 million with a 1998 per capita income of US\$890. Despite its lower-middle income status, PNG's social indicators compare to those of much poorer countries. In rural areas—where over 80 percent of the people live and are engaged largely in subsistence agriculture—GDP is estimated to be less than US\$350 per capita. PNG has a culturally diverse population, speaking some 800 different languages. Cooperation within social groups is very strong, but across them is weaker. Many societies within PNG have had a very short period of exposure to the outside world and bridging the gap between traditional and modern ways of life remains a traumatic and difficult challenge. PNG has high costs of infrastructure provision due to the population's dispersal across rugged mountains and island archipelagos; an increasingly ineffective and politicized civil service; a law and order problem; a system of communal land ownership that limits the use of land; and a volatile political system under which no government has lasted its full term since independence.

1.2 *Persistence of a dual economy.* At independence from Australia in 1975, PNG inherited a dual economy, comprising a narrow formal sector based on mining and plantations and a broad informal sector comprising subsistence agriculture and small-scale cash crops. The country depended on a large number of expatriates in key public and private sector positions and imported a high proportion of its consumption basket. Between independence and the late 1980s, conservative macroeconomic policies on the part of GOPNG along with aid from Australia helped maintain macroeconomic stability. However, real GDP grew by only 1.4 percent a year in the 1980s, a level inadequate to increase per capita income. Moreover growth was concentrated in a few activities—gold and copper extraction, commercial timber logging and tree-crop plantations—that had weak linkages with the rest of the economy and limited employment-generating capacity. As a result, by the end of the 1980s, there was stagnant per capita growth in rural areas, rising unemployment in urban areas, and marked disparities between regions with mineral resources and those without. Conditions for women in rural areas remained particularly difficult, with women bearing the primary burden for horticultural labor, child-care, and collection of water and firewood and having low access to social services and infrastructure.

1.3 *External shocks, a mineral boom, and structural adjustment efforts in the 1990s.* At the end of the 1980s, closure of a major copper mine along with a decline in commodity prices caused a sharp decline in GDP in 1989-90. GOPNG undertook a stabilization and structural adjustment program in 1990 that restored stability through fiscal and monetary discipline. However, progress in implementing structural reforms was halted in 1992 when increased output from new mineral projects led to a period of renewed growth and reduced pressure to reform. The economy, continued to be driven by its capital-intensive mineral sector, however, which was recognized as being unable to create employment and having a limited lifetime. Between 1992-1994, GOPNG pursued a "supply-side" effort to stimulate the non-mineral sector through expansionary fiscal and monetary policies. The effort failed to stimulate a supply response and triggered another macroeconomic crisis in 1994-95. A further round of stabilization and adjustment measures followed that restored stability by the end of 1995. Some progress was made in improving the

non-mining environment, especially through the flotation and subsequent depreciation of the exchange rate. However, after mid-1997, a prolonged drought and the East Asian crisis upset the external position due to a collapse of the Japanese timber market; lower mineral prices and exports; and a fall in foreign direct investment. A loosened fiscal stance in 1998 escalated domestic borrowing that worsened the macroeconomic position. Combined with a general loss of investor confidence in GOPNG's management of the economy, the situation deteriorated into a crisis that persists to date.

1.4 *Limited improvement in social indicators due to non-participatory growth.* Periodic success at stabilizing the economy combined with the exploitation of a succession of new mineral deposits helped PNG achieve a growth rate of over 4 percent a year in the 1990s. However, the narrow growth base, combined with ineffective public investment, served to exclude the majority of the people from benefiting from growth. While the mineral sector grew over 15 percent a year in the 1990s, growth in agriculture and fisheries (*including* timber), was just 1.9 percent a year, less than the rate of population growth (of 2.3 percent). Estimates indicate that social indicators barely improved over the past decade and remain well below those of similar-income countries. A 1996 survey indicated that 38 percent of the population lived below the poverty line, compared to 11 percent in Indonesia. The Gini coefficient for PNG is 0.46, higher than most countries in the region. Life expectancy rose from 56 to 58 years, which is still below the *low-income* country average of 59 years. Adult literacy has remained stagnant at around 52 percent, again below the *low-income* country average of 54 percent as well as the middle-income country average of 84 percent. Maternal mortality is very high at 370 per 100,000 births and infant mortality at 79 per 1000 births is well above the regional average of 37. For a country with a GDP per capita of US\$890, these low social indicators reflect the inadequacy of development efforts to date.

2. Bank Assistance to PNG Since 1989

2.1 *Objectives.* Bank Country Assistance Strategies in 1990, 1993 and 1995 identified the following main objectives for Bank support: (i) maintaining macroeconomic stability; (2) accelerating growth in the non-mining economy; (3) improving access to basic social services; (4) ensuring a sustainable use of natural resources, particularly forests; and (5) building institutional capacity. OED's view is that these objectives were and remain the most appropriate for Bank support and that furthering each was essential to establishing a sustainable growth path and improving living standards in PNG. Within these broad parameters, the Bank maintained a fairly thin presence in some areas, while in other areas—such as fiscal management, the non-mineral sector environment, and forestry—it played a much more significant role.

2.2 *Lending operations.* PNG was an IBRD borrower throughout the 1990s, although its lower GDP per capita in 1998 has made it eligible for IDA financing in the future. Bank lending during the 1990s totaled US\$230 million, including two adjustment loans (FY90 and FY96) for US\$105 million. Given the availability of concessional finance from other sources, between 1989 and 1995, the Bank maintained a policy of limiting investment project financing to “one or at most two” new projects a year. These included two agriculture projects (FY89 and FY92), a public sector training project (FY91), an urban infrastructure project (FY91), an education project (FY93), a health project (FY93), and a petroleum sector TA project (FY94). In 1995, in response to a volcanic eruption, the Bank financed an emergency rehabilitation operation, using

undisbursed funds from on-going projects. After 1995, due initially to a decision to focus on policy based lending and later to the inability to come to agreements on proposed projects in roads and forestry, only one Bank loan—a US\$5 million drought recovery project—was made. The health of the active project portfolio in PNG remained consistently poor in the 1990s. At present, five out of six active projects (87 percent of the amount) are at or potentially at risk due to a range of policy and institutional problems.

2.3 *Performance ratings of completed projects.* Since 1989, 13 completed projects exited the Bank's portfolio. Four of these were in agriculture, five in infrastructure (transport, power, and telecommunications), one in education, one in land reform, and the remaining two were SALs. Performance ratings for completed projects were well below Bank norms. The Aggregate Project Performance Index was 5.37, which is among the lowest in the Bank. Only 31 percent of projects were satisfactory compared to a Bank average of 69 percent and an AFR regional average of 56 percent. Just 15 percent of projects were likely to be sustainable, against a Bank average of 47 percent and AFR average of 29 percent. Institutional development impact ratings were also among the lowest in the Bank with just 8 percent having a substantial impact, compared to 24 percent Bank-wide and 24 percent in AFR.

2.4 *ESW and policy advice.* Annual CEMs were produced between 1989 and 1994, a PER in 1995, and a further CEM in June 1999. According to Bank staff, the Bank did not produce a CEM between 1995 and 1999 because it was engaged in economic issues through the SAL and lacked the resources to work on both a CEM and SAL. Sector work included a forestry review (FY90), a health review (FY91), an agriculture review (FY97), and an education review (FY98). A Poverty Assessment was commenced in 1996 but has not been completed to date. While the Bank had a fairly small lending presence, it established itself as the leading external advisor on structural reforms, by virtue of its CEMs and adjustment loans. The Bank also maintained a key advisory role in forestry and contributed to policy development in education and transport. The CEMs produced in the early 1990s were sound reports that helped generate and maintain awareness of a range of development constraints and required actions. The FY99 CEM also provides an in-depth analysis of PNG's weaknesses and defines a comprehensive reform agenda. The Bank established a liaison office in PNG in 1996, but has not staffed a resident mission on the grounds that its small lending program did not warrant the expense. However, there is a strong view among officials in GOPNG, the private sector, and donors in the country that a Bank field presence would have enhanced its assistance by improving communication of its policy recommendations; minimizing misunderstandings with GOPNG; and enhancing collaboration with other donors.

2.5 *Donor coordination.* The Bank had a useful role as Chairman of the CG that met annually between 1987 and 1996. However, no CG meeting has taken place after 1996, partly because of disagreements between the Bank and GOPNG on the pace of reforms. The IMF provided three standby agreements (1990, 1991, and 1995) and technical assistance for tax reform and banking supervision. Lack of coordination between the Bank and IMF has been an issue: GOPNG asserts that the Bank and IMF occasionally provided inconsistent advice—such as on the relative stringency of fiscal targets in the 1995/96 budget. IFC had one operation in PNG—a US\$13 million investment in a tuna plant in 1993 and MIGA extended a guarantee for a gold-mining operation (see Annex 1). Australia is the largest donor, providing some two thirds of official external assistance over the past decade. The Bank's relationship with AusAID was generally good. AusAID supported the Bank's lead in structural reform and sustainable forestry in the 1990s, including making some budgetary support conditional on agreements with the Bank

and IMF. Australian trust funds contribute towards most of the Bank's activities in PNG. The Bank contributed to AusAID's decision to phase out unconditional budgetary support in favor of project financing. However, collaboration among the Bank and other donors in sector investments was limited in the 1990s, contributing to strains on GOPNG's implementation capacity. The Bank recently established regularly scheduled meetings with ADB and AusAID to enhance coordination and has encouraged GOPNG to better define each donor's comparative advantage and role within a comprehensive development framework.

2.6 *Interaction with NGOs and civil society.* In 1995, the Bank initiated a program to engage NGOs in the reform process and in Bank-financed projects. This positive effort resulted in some NGOs becoming more supportive of Bank assistance activities in PNG, particularly in forestry. While there is awareness and support for Bank assistance among a set of core government officials, there appears to be a wider ignorance of Bank objectives in the country among other government officials, NGOs and the press. The Bank is seen by some as pursuing its own interests rather than those of the people in PNG or alternatively as a "necessary evil" in times of crisis. Views among representatives of the private sector are supportive of Bank policy interventions, primarily as a means of ensuring a more consistent policy direction on the part of GOPNG. As discussed below, most of the Bank's investment projects would have benefited from greater public dissemination of their objectives and benefits in order to have built consensus and ownership among stakeholders, particularly among traditionally competitive local clan/village groups. Given their importance in rural communities, a greater effort to engage church groups in the Bank's development efforts was warranted.

2.7 *Integration of gender issues.* In 1992, the Bank financed a study on women in development order to better integrate gender issues into its lending program. Each of the CEMs and sector reports raised gender issues and in 1997, the Bank financed a comprehensive gender assessment study. The studies identified the generally lower status held by women, highlighted a range of constraints to their participation in economic activities and access to social services, and made recommendations to reduce disparities. A high rate of domestic violence against women (with some studies showing that 70 percent of married women are physically abused) along with fear of violence and rape in both rural and urban areas was identified as reducing women's participation in social, political, and economic activities. Among Bank projects in the 1990s, the Education Development project aimed to increase girls access to secondary education and the Population & Family Planning project was designed to reduce the high maternal mortality rate by providing health and family planning services. Appraisal of the FY92 agriculture project included consultations with women to ensure that land for food production, health and education facilities, and income-earning opportunities were available for women in the project area. Recent data indicates that girls enrolment has increased, partly as a result of Bank involvement in the sector.

2.8 *Bank assistance cost indicators.* Bank lending and non-lending costs were generally at or below Bank norms in the 1990s, reflecting the substantial use of trust funds resources for projects and ESW. The average number of staff weeks spent project preparation (up to Board approval) was 70, compared to a Bank average of 113 and an EAP average of 111. This average, however, is likely to be driven up by several projects in the pipeline—particularly the third SAL—that have been under preparation for several years, but have not yet been brought to the Board. Supervision intensity was also below Bank norms, with an average of 11 staff weeks per project spent on supervision, compared to Bank-wide and EAP figures of 16 and 13 respectively. Along with the use of trust funds, this also reflects the use of field-based consultants that lowered supervision

costs. The average cost of an ESW report was 48 staff weeks compared to Bank-wide and EAP averages of 61 and 68 respectively. This average is also likely to be driven up by the recently completed CEM and the on-going Poverty Assessment, both of which involved long preparation periods and changes in staff teams.

2.9 *Periodic strains in the relationship.* The relationship between the Bank and GOPNG reached tense levels at times during the 1990s. As an example, GOPNG objected strenuously when the Bank suspended disbursement of the second tranche of SAL II in 1996, citing GOPNG's failure to meet release conditions. A senior GOPNG official was quoted in the press as saying "the World Bank can go to hell" and GOPNG explored options of securing financing from other sources. In 1998, the Bank and GOPNG disagreed over GOPNG's hiring of a former Bank staff member as chief economic advisor. The Bank argued that the former staff member's working on a proposed adjustment program constituted a violation of the terms of his agreement with the Bank and was a conflict of interest. GOPNG asserted its right to retain the advisor and again tried to obtain financing from other sources (ultimately unsuccessfully). These unfortunate strains have adversely affected the dialogue and Bank assistance activities. Other donors also adopted tentative approaches in their programs as they waited for GOPNG to resolve its differences with the Bank. GOPNG officials have tended to see the Bank as a source of external finance in crisis situations rather than as a partner to achieve long-term development objectives. As a result, Bank conditions and procedures intended to help further long-term goals have been resented and at times, GOPNG has endeavored to marginalize the presence of the Bank. On the part of the Bank, more efforts to disseminate its objectives and role to officials beyond a few key ministries would have helped broadened support for its assistance. Reportedly abrasive approaches by some Bank staff as well as insufficient appreciation of local conditions and sensitivities added to resentment of the Bank. Absence of a consistent Bank presence through a resident mission undermined the communication process.

3. The Bank's Contribution to Development

Maintaining Macroeconomic Stability

3.1 *The Bank helped restore stability in the short-term, but was unable to help improve fiscal management.* Since 1989, there have been three macroeconomic crises in PNG—in 1989-90, 1994-95, and 1998-99—due largely to weak fiscal management as well as to external shocks. The FY90 SAL I responded to the crisis caused by closure of a major copper mine and the FY95 SAL II responded to the self-inflicted crisis caused by expansionary policies in 1992-94. Both operations helped restore short-term stability by imposing fiscal and monetary discipline. However, despite close Bank attention, in-depth improvements in fiscal management needed to sustain stability over time did not occur. There continues to be mismanagement of the mineral resource stabilization fund, lack of transparency in the budget process, questionable allocations, high recurrent expenditure, inadequate development expenditure, and a narrow revenue base. While the Bank was able to secure increased budgetary allocations for development expenditure, there have been consistent shortfalls in actual spending and these funds have been the first to be cut during periods of austerity. This was the case in both 1990 and 1995. The Bank was unable to encourage a sustained decrease in the discretionary "development funds" allocated to Members of Parliament (MPs) for disbursement in their districts. These funds deprive investment resources

from regular agencies and there are serious questions as to their accountability as well the relevance and sustainability of investments toward which they are channeled.

Stimulating the Non-Mineral Economy

3.2 *Hesitant progress in improving the incentive environment for non-mineral production.* A number of positive steps were taken in the 1990s to improve the environment for the non-mineral sector, including decontrolling wages in 1992, floating the exchange rate in 1994, and realizing partial trade and price reforms. However, progress has been halting and incomplete. Measures under SAL I to improve the tax and trade regimes, promote investment, and begin privatization were either not implemented or effectively reversed when the government that took office in 1992 openly rejected some of the measures. Under SAL II, better progress was seen although the program realized only the early stages of most reforms. Only one third of products scheduled for price decontrol were actually liberalized and a range of industries including shipping, air transport, telecommunications, rice, and canned fish remain under state-controlled price regimes. While measures were taken to rationalize and then reduce tariffs, progress was slow and targets were progressively watered down. Overall, there has been a lack of a consistent commitment to implement the reform agenda. Evaluations point to an insufficiently broad consensus on reforms that facilitated their reversal or only partial implementation.

3.3 *Ineffective investments in agriculture.* Progress in the agriculture sector was very limited. Bank interventions supported term credit for farmers, extension activities, rural infrastructure, and estate crop productivity. All four projects completed in the 1990s were rated unsatisfactory at completion and both active projects are either at or potentially at risk. Factors behind this weak outcome include, a poor incentive framework for farmers (including the exchange rate, controlled marketing arrangements, trade barriers) which discouraged shifts in production; lack of both feeder and trunk roads to access markets; the law and order problem; constraints to land ownership; weak political commitment; political interference into project operations; and lack of funding and capacity at local levels. The agriculture sector stagnated in the 1990s and while PNG's climate and soil enable production of a wide range of tropical and temperate crops, fruits and vegetables for urban consumption continue to be imported from Australia and New Zealand.

3.4 *Slow progress and questionable sustainability of Bank-funded road projects.* Bank interventions in roads helped improve the Highlands highway; increase the priority on road maintenance; and develop a transport sector policy paper. Progress in physical achievements was slow however, capacity building limited, and there are serious questions as the sustainability of assets created. Factors behind slow progress included difficulties in land acquisition; security problems; weak project management, and lack of qualified staff. Sustainability is undermined by limited administrative capacity at both provincial and national levels and inadequate maintenance funding for existing roads caused partly by politically-driven preferences for new road projects. General mismanagement and lack of transparency in the Department of Works is also an increasing concern. Shortcomings on the part of the Bank include inadequate attention to policy constraints in the sector; complex project designs; and a consistent underestimation of costs. On the other hand, experience under the Gazelle Restoration project indicated that basic infrastructure projects can be effectively implemented under the right conditions (see Box 5.1 below). The overall inability to make sustainable progress in roads during the 1990s had significant negative implications for the non-mining economy and access to social services.

3.5 *Ineffective effort to increase the use of land.* In recognition of the central role of the land ownership problem in PNG, in 1990, the Bank financed the Land Mobilization Project, aimed at improving the policy, institutional, and legislative environment to increase the use of land. While the project's objectives remain highly relevant, there was little progress toward them. A key adverse factor was a hostile, misinformed NGO campaign that derided the project as "mortgaging the people's land to the World Bank", causing whatever political support for the project that existed to ebb as public perceptions turned negative. The experience underscored the challenge in altering traditional systems. In retrospect, the project required a sensitive, cautious approach that fully integrated local perceptions as well as a public education campaign and effort to bring representative NGOs on board. The customary land registration component was also initiated in a particularly difficult region of the country, instead of being piloted in a more conducive area.

3.6 *Lack of overall progress in the non-mining sector has been a critical lapse.* PNG's key development objective of stimulating growth in the non-mineral economy was not achieved during the 1990s. Per capita growth in agriculture was negative; fisheries accounts for just 2 percent of GDP, despite estimates that this figure could be 10 percent; tourism remains severely undeveloped; and a response in manufacturing and agro-processing did not occur. Private fixed investment in the non-mineral sector in the 1990s averaged 9 percent of GDP, an amount considered inadequate to cover capital replacement costs. The inability to generate a supply response in the non-mineral sector remains a critical failure in PNG's development efforts to date. Experience indicates that until a supply response occurs, most of the population will be left out of the growth process and the economy will be subject to external shocks that upset macro-stability and inhibit public investment and the delivery of basic social services. A range of issues remains to be addressed to improve investment and growth in the non-mining sector. These include the lack of infrastructure; lack of clear and consistent policy directions on the part of GOPNG; continued protectionist biases in the tax, trade, and price regimes; the law and order problem; the land ownership problem; over-regulated air and shipping industries; limited access to finance; and diminution of the competitive environment from public corporations and private monopolies.

Improving Access to Basic Social Services

3.7 *Some contributions in education, although poor sector management and the weak fiscal position constrained progress.* Bank ESW, two education projects, and policy dialogue contributed to a major effort by GOPNG in the 1990s to identify underlying constraints in access to education that culminated in the 1998 National Education Plan. Bank projects contributed to increasing access to secondary education through construction of new schools, teacher training, and provision of teaching materials. However, ineffective project management, difficulties in land acquisition, inadequate national and provincial funding; and cumbersome procurement procedures, severely constrained progress. In the mid-1990s, GOPNG invited the Bank to take the lead among donors in the education sector. However, the Bank opted not to pursue this role in favor of addressing broad policy issues prior to new sector investments. While some progress was made, access to education in PNG remains very low. Gross primary enrollment in 1995 was 80 percent, compared to an EAP average of 115 percent and secondary enrolment was just 14 percent compared to an EAP average of 65 percent. Large regional disparities exist, with primary enrolment in the Highlands being less than 50 percent.

3.8 *Difficult progress in other social sectors.* As in education, the Bank did not have a major presence in health and water supply, given the preponderance of other donors in these sectors. Following the 1991 health sector study, the Bank financed the FY93 Population & Family

Planning project, aimed at reducing the rate of population growth and improving health indicators through maternal-related health and family planning services. The project developed an effective health promotion communication strategy and preliminary indications show a positive impact on the use of family planning and health services in the six project areas. However, implementation was very difficult, suffering from a range of problems, including weak provincial level capacity, inadequate government funding, and poor project financial management. The FY98 El Niño Drought Recovery project aimed to improve rural potable water supply and develop community infrastructure maintenance programs. However, the project has not yet got off the ground due to delays in appointing key personnel and inadequate preparation for the project. During implementation of SAL II, the Bank helped establish the Targeted Community Development Program to finance micro-scale rural infrastructure projects. While the program got off to a promising start, it has ceased operations due to lack of financial support from GOPNG.

Ensuring a Sustainable Use of Natural Resources

3.9 *Positive Bank contribution in forestry, although sustainability is in question.* The Bank played a prominent role in forestry in the 1990s, helping improve the policy and institutional environment in the sector. Through studies, advice, coordination of donor aid, and conditions in SAL II, the Bank helped PNG move - to some degree - away from corrupt, unsustainable, and inequitable logging practices that prevailed in the 1980s. The effort supported reformers within GOPNG and was backed by local NGOs and other donors, especially Australia. Key measures included passing the Forestry Act in 1991; establishing an independent National Forest Authority to regulate the industry and approve forestry concessions; introducing surveillance and monitoring systems for log exports; establishing a code of conduct in logging; and restructuring the revenue system to increase returns to both GOPNG and landowners. These measures were implemented with great difficulty, however, meeting strong resistance from the logging industry and politicians representing logging districts. The Bank's suspension of the second tranche of SAL II in 1996 helped forestall backtracking on forestry reforms. In 1998, however, GOPNG reduced log export duties to maintain volumes in the face of lower prices and there was renewed marginalization of the Forest Authority, with large extensions to existing concessions being considered; procedures for granting new concessions circumvented; financial support to the forest service withheld; its staff re-shuffled; and preparations made to amend the Forestry Act.

3.10 *Need for consistent high level ownership of forestry reforms for Bank support to be effective.* In retrospect, the Bank played a valuable role in helping PNG keep an optimal and sustainable forestry regime in sight in the face of strong contrary interests. Through its conditionality, the Bank sent a clear message that sustainable natural resource management is as important to development as macro-management and other structural reforms. In retrospect, however, it is apparent that consistent high-level political ownership of the reforms was necessary if they were to be fully implemented and sustained. This was not the case in PNG in the 1990s, where regular changes among the key players brought varying degrees of commitment. The fairly simple lesson is that while Bank instruments can play an important role in keeping the agenda on the table and helping the government overcome resistance from vested interests, they are insufficient to overcome resistance from the government leadership itself. Additional efforts to involve representatives of the logging industry and non-logging forest activities and build a consensus across clan/village level landowners may have enhanced the likelihood of sustainability. In the event, however, the Bank's use of financial leverage in the absence of sufficient high-level ownership, resulted in considerable Bank influence and goodwill being used up, without ensuring a sustainable change.

3.11 *Useful contribution in the petroleum sector.* The FY93 Petroleum project helped strengthen the policy framework and management capacity in the sector. Policy measures developed under the project covered gas policy, pipeline policy, downstream activities, and landowner benefits. Advisory services and studies improved the capacity to assess revenue policies, developed standards for the safe transport of petroleum products, and initiated plans for a gas pipeline to Australia. Of some concern, however, is the high rate professionals trained under the project have left for more lucrative jobs in the private sector. An increase in salary and benefits for staff is considered essential if the public sector is to retain trained and qualified personnel. Further concerns in the mineral sector include the questionable optimality of tax regimes covering other mineral products, declining investment in exploration, and the mineral sector's general lack of linkages with the rest of the economy.

Building Institutional Capacity

3.12 *Ineffective civil service reform efforts.* Although the Bank acknowledged the need for civil service reform in the 1990s, its approach to addressing the problem was inadequate. It consisted mainly of wage-bill and staff reduction measures, which were not successful, leaving the budgetary burden in place, while adversely affecting efforts to build capacity in service departments. This was the case in the Land Reform and Population and Family Planning projects, for example, under which efforts to strengthen capacity were undermined by the loss of personnel following civil service cutbacks. In retrospect, given extensive weaknesses in the civil service, limiting the focus to the fiscal implications of the wage bill was inappropriate. At least equal attention should have paid to improving management and the incentive framework in the civil service, which are essential for long-term service delivery improvements. The adverse impact of incomplete decentralization efforts, under which the central government effectively abrogated responsibility for service delivery but failed to confer resources on provincial and local authorities, should have been a focus. The increasing politicization of the civil service during the 1990s warranted attention, with Ministers presently able to hire and fire senior civil servants without due process, contributing to poor motivation and management. The influence of the *wantok* system, which encourages loyalties and chains of command to be organized around ethnic affiliations or individual personalities rather than organizational hierarchy, is an area that needed to be better understood and addressed. A focus on strengthening anti-corruption and accountability mechanisms in the public sector may have helped improve the efficacy of service delivery.

4. Performance Assessment

Outcome: Unsatisfactory

4.1 *Lost opportunity to accelerate development.* Despite the inflow of mineral revenues along with substantial financial, advisory, and technical assistance from the Bank (and other donors), PNG's development objectives were hardly advanced during the 1990s and it remains in a very similar position to that of 1989. While external shocks provided setbacks, inadequate political will to implement the development agenda constrained progress. Some policy initiatives and projects begun due to the influence of the Bank or other donors were not fully implemented, subsequently reversed, or allowed to lapse. To some extent, periodic surges in mineral revenues relieved the pressure to reform. Lack of a broad consensus on the reform agenda facilitated partial implementation or reversal of reforms. Changes in government officials yielded overt policy

shifts or more subtle shifts in priorities. A cultural norm under which leaders are expected to distribute wealth manifests itself in a tendency toward handouts rather than creating self-help opportunities. Strong clan loyalties, traditional competition among clans, and officials elected with a small minority of votes, favored parochial rather than regional or national interest. Revolving governments led to frequent changes in ministers and heads of departments that undermined the functioning of the bureaucracy. The “constant change” in the civil service and in policy directions reduced investor confidence in the economy, severely hampering progress. Allegations of corruption and mismanagement clouded the environment for public and private investment. PNG’s experience in the 1990s underscored the need for full understanding and integration of the social, economic, and political dimensions of development in order to achieve progress.

Institutional Development Impact: Modest

4.2 *Some positive impact, although sustainability is questionable in the absence of meaningful civil service reform.* Each of the Bank’s projects contained components aimed at strengthening the capacity of implementing agencies and government departments. The petroleum TA project was effective in building public capacity in the sector and the FY91 Public Sector Training project provided significant training assistance to meet skill shortages in several departments. Bank work in forestry played a valuable role in establishing an independent authority to regulate the sector. On the other hand, the institutional development components of some projects did not receive as much attention as physical components. This was the case in the FY88 Yonki-Hydroelectric project, where the component aimed at developing the institutional and policy framework for rural electrification was ineffective due to low attention paid to it by both GOPNG and the Bank. Likewise, despite the physical achievements of the FY90 Telecom project, it was rated unsatisfactory due to negligible progress in institutional development, despite its importance to the sector. Weak management, poor motivation, and high staff turnover (as in the petroleum sector) undermined capacity-building efforts. Expatriate consultants hired to impart skills tended to in fact carry out line responsibilities, with very little skills transfer taking place. The Bank did not have an impact on broader changes needed for long-term improvements in public service delivery.

Sustainability: Uncertain

4.3 *Project sustainability is doubtful and structural reforms have slowed or been reversed.* With a few exceptions, the sustainability of Bank-financed investments in agriculture, infrastructure, social services, and institutional building is highly questionable. Key factors behind this are poor fiscal management, which deprives public investment efforts from adequate funding and poor management in the civil service. The lasting impact of Bank-supported structural reforms is also under serious question. In several instances, reforms initially undertaken were reversed or only partially implemented. As a consequence, the short-term costs of adjustment are occurring, without many signs of the longer-term benefits. As an example, flotation and subsequent depreciation of the exchange rate adversely affected urban consumers and established import-oriented businesses, while a compensating response in agriculture or domestic manufacturing failed to occur due to the persistence of a range of other obstacles. It is possible that such circumstances can place increasing pressure on GOPNG to reverse liberalization measures. The best means of ensuring that achievements to date will be sustained is steady progress on the remaining structural reform agenda, until the desired supply response occurs. The new government, which took power in July 1999, has indicated an encouraging degree of commitment to advancing the reform agenda and has a large majority in parliament. However, it

remains to be seen whether it has sufficient political will to overcome past gaps between rhetoric and actual implementation.

Bank Performance

4.4 *Bank performance mixed.* Despite its relatively small lending program, the Bank developed an influential advisory position in PNG in the 1990s. It identified and supported a relevant set of objectives and as the 1990s wore on, endeavored to focus on policy weaknesses rather than add to the set of poorly performing physical investments. Its assistance efforts included good ESW, integration of gender and environmental issues, and a positive effort to engage NGOs. Hard-working and persistent efforts by Bank staff in a difficult and unrewarding environment are evident. At the same time, Bank investment projects of the early 1990s contained an unrealistic optimism with respect to policy constraints and weak institutions. The Bank's approach to civil service reform was lacking and some recommendations undermined parallel efforts to build capacity in service delivery departments. Bank attention to the country was inconsistent, with periods of intense activity being followed by a lapse of any activity - undermining the Bank's impact and sending confusing messages to GOPNG and other donors. Inadequate integration of difficult local conditions, cultural norms, village-level perceptions, and political needs constrained the Bank's effectiveness in the 1990s and added to the uneven relationship with the country.

5. Lessons and Recommendations

5.1 *Future Bank assistance.* PNG's case presents a dilemma for the Bank. On the one hand, the poor past performance in project and policy implementation as well as the availability of mineral export revenues and assistance from other donors questions the relevance of additional financial assistance from the Bank. On the other hand, past experience indicates that the Bank can play a critical role in helping generate much needed confidence in the economy among local and foreign investors, external donors, and the international financial community. OED's view is that the Bank should intensify its non-lending assistance, but restrain its lending services. Its comparative advantage is as an advisor on policy and institutional reform, as a conveyor of technical expertise and international development experience, and as a counterweight to expectations of lack of policy direction. In this context, OED recommends that the Bank:

- *Sustain its non-lending services.* For the Bank to continue assisting PNG, it must make a commitment to allocating significant administrative resources for non-lending services, even in the absence of an extensive lending program. The Bank should build on its past work on the policy and institutional reform agenda by producing regular structural and social policy reviews, contributing to sector strategies, fostering institutional analysis and reform, and encouraging social assessment and participation in development.
- *Collaborate with GOPNG and other donors to develop a long-term strategy along the lines of the comprehensive development framework.* The deep-rooted and sociopolitical nature of PNG's development constraints implies the need for a gradual but consistent implementation of policy and institutional reforms over an extended period. The Bank should work closely with GOPNG and other donors to develop a long-term, phased, and monitorable strategy to maintain macro-economic stability; strengthen public sector management and accountability;

increase the delivery of basic social services and infrastructure in rural areas; and improve the legal, regulatory, and incentive environment for the private sector.

- *Help manage existing resources rather than provide additional financial resources.* Given unfavorable past experiences, the Bank should not undertake significant investment lending in the absence of clear progress in improving the policy and institutional environment for public investment. Adjustment lending is also unlikely to have a sustainable positive impact given the lack of social consensus for reform as well as the availability of resources from mineral exports and other donors. To support short-term stability, the Bank should help leverage the inflow of resources from other donors and private investors by providing technical and advisory assistance to advance key policy and institutional reforms. Until the lending environment improves, the Bank should make use of LILs to engage the government and foster institutional reform, advance the environmental protection framework, and test basic rural infrastructure delivery mechanisms.
- *Establish a field presence.* There is a widely held view that presence of a resident mission during the 1990s would have strengthened the Bank's assistance by improving communication of its policy recommendations, minimizing misunderstandings with GOPNG, and enhancing collaboration with other donors. Given the country's remoteness, the importance of donor coordination, and the need to closely monitor the social and structural policy environment, the Bank should establish a field presence to enhance its contributions in the future.
- *Help disseminate development objectives to build ownership.* Lack of consensus-building and transparency in the reform process in the past yielded a narrow support-base that undermined political commitment to reforms and facilitated half-hearted implementation or reversal. The Bank should work closely with GOPNG to help disseminate the objectives, processes, and benefits of a long-term development strategy among elected officials, the civil service, the private sector, NGOs, and local village/clan groups in order to help build a consensus and foster ownership.

Box 5.1: Examples of Good Practices – The Gazelle Restoration Project

Successful provincial reconstruction effort: The Gazelle Restoration project responded to a volcanic eruption near Rabaul in 1994 and proved to be an effective basic infrastructure development effort in the difficult PNG context. Basic utility services, roads, the airport, schools, health centers, and other essential public services were built or restored, while the use of small private local contractors generated employment and built local capacity. Elements behind the success of this effort include exemption from standard bureaucratic procurement and staff hiring norms; accountability and transparency in the sub-contracting process; the Bank use of conditionality in SALII to ensure initial counterpart funding in 1996; a close working relationship between project staff and the Bank; high-level political support; and an effective project manager.

6. Current Draft CAS

6.1 The draft FY00 CAS for PNG reflects many of the lessons of the Bank's past experience in PNG and incorporates recommendations from this review. Its emphasis on improving the governance framework in PNG is appropriate and the focus on developing a rural development strategy addresses the critical need to engage the bulk of the population in the development process. The CAS indicates that the low case scenario is in effect and contains a relevant set of triggers for movement into the base case. To monitor CAS implementation in the base case, OED recommends that the Region define 3-5 outcome indicators that are linked to the Bank's program and are monitorable in real time in order to facilitate identification of the Bank's contribution toward sustainable poverty reduction in PNG.

Annex 1. MIGA's Experience in Papua New Guinea¹

In FY 1996, MIGA issued guarantees totaling US\$76.7 million to RTZ Overseas Holdings to cover a portion of its equity investment in Lihir Gold Limited, and to Union Bank of Switzerland, acting as an agent for a group of banks, to cover non-shareholder loans to Lihir Gold Limited. EFIC (Australia) and EDC (Canada) are also involved in project finance and guarantees.

The Lihir Gold mine is located in New Ireland Province on the island of Lihir, a small island with an ethnically homogeneous population. When the existence of a rich ore deposit was confirmed in the late 1980s, the project sponsors hired a specialist in social and community development programs, and the local landowners were encouraged to develop a landowners' association to work with the project sponsors in developing relocation and compensation programs acceptable to the entire community. In addition to the creation of the landowners' association for those whose lands were directly impacted by the project, the project sponsors also encouraged the formation of a development association that would represent the interests of all Lihirians on the island. As a result, there has been extraordinary communication between the project sponsors and the local communities throughout the feasibility studies, social and environmental studies, and through the ongoing implementation of a negotiated Integrated Benefits Package. The studies provided a wealth of information to design adequate mitigation programs. Many of these programs are part of the Integrated Benefits Package and include compensation (e.g., cash, royalties, and equity); infrastructure enhancements (e.g., health and education facilities, roads, Village Development Scheme); and business development and training initiatives.

Mining operations began in May 1997. Lihir is estimated to have the world's second largest gold reserves and should become the largest gold mine in PNG. MIGA visited the mine on September 1998 to obtain preliminary information on developmental impacts and to carry out a site review of environmental aspects of the project. As a result of the visit, MIGA staff could verify that the project is in compliance with its contract regarding World Bank policies and guidelines. It was also verified that it employed about 3,500 workers during the mine's construction phase and, as of August 1998, the Company had 632 permanent employees. As of September 1998 sales reached US\$135 million, and estimates for end-1998 were US\$220 million. The latter value alone would surpass the total value of copper exports in 1997, the country's second largest exported mineral. Its contribution to government revenues has also been substantial. In 1997, the Company paid about US\$100 million in taxes and export duties, comprising a combined 18 percent of the government's tax revenues.

MIGA receives monthly reports on the project from the investor. These are augmented by annual environmental audit reports prepared by independent experts. A July 1998 site visit was carried out by IBRD social specialists who were studying the project as a case study for best practices by the private sector in social assessment and community development. The case study by the IBRD social specialists from ENV, which will be published, found that the project was developed and is being implemented in compliance with relevant World Bank safeguard policies.

Based on information gathered to date, MIGA's support of the Lihir investors appears to have resulted in significant development impacts in Papua New Guinea on a project-specific and provincial basis.

¹ This Annex has been supplied by MIGA Policy and Evaluation staff.

Annex 2. People Interviewed During Evaluation Mission

Papua New Guinea, June 7-19, 1999

Department of Treasury and Planning

Mr. Brown Bai, Secretary
Mr. Clement Kote, Acting Deputy Secretary
Mr. Joseph K. Demas, Director, Office of National Planning
Ms. Marianna Ellingson, First Assistant Secretary, Foreign Aid Management Division
Ms. Fiu-William Igara, First Assistant Secretary, Loans and Revenue
Mr. Joseph Lelang, Assistant Secretary Fiscal Policy, Economic Policy Unit
Ms. Ruby Zarriga,

Department of Finance

Ms. Betty Palaso, Tax Commissioner, Internal Revenue Commission

Central Bank

Mr. Morea T. Vele, Governor, Bank of Papua New Guinea (Central Bank)

Ministry of Commerce and Industry

Hon. Ian-Stuckley, Minister of Commerce and Industry

Ministry of Petroleum & Energy

Sir Rabbie Namaliu, Minister of Petroleum & Energy (former Prime Minister)

Department of the Prime Minister and Cabinet

Mr. Pirouz Hamidian-Rad, Chief Economic Advisor to the Prime Minister and Cabinet
Mr. Paul Barker, Economic Advisor, Prime Minister's Office
Mr. Robert Igara, Advisor, Prime Minister's Office

Department of Personnel Management

Mr. Bill S. Kua, Secretary
Ms. Felecia Dobunaba

Ministry of Education

Mr. Geoff Thompson,
Mr. Neil Murray, Project Coordinator, Education Development Project

National Forest Authority

Mr. Kanawi Poursu
Mr. Peter McCrae

Infrastructure

Mr. Henry S. Parakei, Deputy Secretary, (Policy and Planning) Dept. of Transport, Works, and Civil Aviation
Mr. John Painap, Project Manager Gazelle Restoration Authority
Mr. John Eddison, Principal Engineer, Gazelle Restoration Authority

Political Opposition

Hon. Bernard Narokobi, MP, Opposition Leader

Private Sector

Mr. Greg Anderson, Executive Director, PNG Chamber of Mines & Petroleum,
Mr. Mel Togolo, General Manager, Placer Niugini (mining)
Mr. Wayne Golding, Chairman, Manufacturers Council of Papua New Guinea
Ms. Maryanne McDonald, Executive Officer, Manufacturers Council of Papua New Guinea
Mr. Dennis Hill, Proprietor, Tropic Frond Oils Ltd
Mr. Noel R. Smith, Managing Director, Bank of South Pacific
Mr. Thomas Lomotaku, Manager, Kokopo Village Resort, East New Britain

NGOs/Academic

Mr. Wep Kanawi, Nature Conservancy
Mr. Donald O'Connor, Priest, Catholic Church, Goroka
Mr. Asoka Seneviratne, Head of Economics, University of Technology, Lae
Mr. Mike Manning, Director, Institute of National Affairs
Ms. Jean Kekedo, TCDP (former Managing Director of the Forest Authority)

Other Donors

Mr. Steven Van Der Tak, Senior Programs Officer, Asian Development Bank
Mr. Juan Carlos Rey, Head of Delegation, European Union Delegation in PNG
Mr. Finn Reske-Nielsen, Resident Representative Acting in Charge, UNDP
Mr. Arrizabalaga, Economic Counselor, United States Embassy
Ms. Margaret Regnault, Minister-Counselor, Development Cooperation, AusAID
Mr. Tony O'Dowd, First Secretary, Education, Training & Private Sector, AusAID
Ms. Robin Scott-Charlton, Counselor, AusAID
Mr. Ali Noore, First Secretary, Economic, Australian High Commission

Annex 3. Management Action Record

Major Monitorable OED Recommendations Requiring a Response	Management Response	Actions
<p>Papua New Guinea – Country Assistance Evaluation</p> <p><i>Sustain its non-lending services, including establishing a field presence.</i> For the Bank to continue assisting PNG, it must make a commitment to allocating significant administrative resources for non-lending services even in the absence of an extensive lending program. The Bank should build on its past work on the policy and institutional reform agenda by producing regular structural and social policy reviews, contributing to sector strategies, fostering institutional analysis and reform, and encouraging social assessment and participation in development.</p>	<p>The Bank's current CAS does in fact respond to this recommendation, proposing a significant increase in non-lending services. From FY94 to FY99 there were no economic reports prepared on PNG. In recognition of this, beginning FY99 we have placed a clear emphasis on AAA work and expect to produce an average of at least one piece of economic work per year. A recently completed CEM will be complemented soon with a poverty report, to be followed by a rural development strategy report and then a structural policy review. We have also been carrying out community level social assessment work on a pilot basis using Japanese TA resources which we hope to fold-in to the rural development strategy and future work on decentralization. Under the current budget regime expanding the scope of these activities is not likely to be achievable, although we recognize that there is a vast un-met need, especially as it relates to focused technical assistance, where we are under-resourced. In addition, to the economic sector work, the non-lending program includes a substantive amount of portfolio improvement work.</p> <p>Regarding the need for a field presence, it should be noted that we have recently appointed a local coordinator, on a trial basis, to operate out of the Liaison Office in Port Moresby whose principal responsibilities relate to providing advice and being an available first-point of contact.</p>	<p>Given the budgetary situation, management will propose a discrete increase in the overall allocation for Papua New Guinea to be utilized solely to provide focused technical assistance, to senior management.</p> <p>A proposal currently under consideration by senior management would establish a regional presence, possibly through an office in Australia. This should serve to significantly strengthen our accessibility with government.</p>

Major Monitorable OED Recommendations Requiring a Response	Management Response	Actions
<p><i>Collaborate with GOPNG and other donors to develop a long-term strategy along the lines of the comprehensive development framework.</i> The Bank should work closely with GOPNG and other donors to develop a long-term, phased, and monitorable development strategy to maintain macro-economic stability; strengthen public sector management and accountability; increase the delivery of basic social services and infrastructure in rural areas; and improve the legal regulatory, and incentive environment for the private sector.</p>	<p>Collaboration with donors has a long history in PNG, born of necessity—because substantial resources are provided by a few bilateral and multilateral partners and given the capacity constraints of the country, the Bank has been quite selective in its interventions and careful to collaborate and coordinate with donors. This is not easy, given donors traditionally have preferred to partition sectors. Nevertheless the Bank has remained involved in a meaningful way in both the education and health sectors which are considered the purview of other donors. One initiative pioneered recently is to hold formal and regular tripartite meetings with AusAID and the ADB, who are the principal providers of financial assistance to PNG. A CG Meeting has been arranged for November 1999.</p> <p>Collaboration with government has been more trying in recent times, in large part because of increased political intrusion into the public sector. For example, over the past 24 months the turnover rate in the public sector has been unprecedented—over 15 departmental heads have changed, along with 38 heads of statutory and constitutional agencies, and there have been 7 different heads of Treasury since 1995.</p>	<p>We will continue our efforts with donors which are beginning to bear fruit. If the initiative to establish a regional office is successful we would then be able to greatly expand the collaboration and increase the frequency of, for example, the tripartite meetings.</p> <p>The Rural Development Strategy will be undertaken in partnership with AusAID and PNG institutions.</p>

Major Monitorable OED Recommendations Requiring a Response	Management Response	Actions
<p><i>Help manage existing resources rather than provide additional financial resources.</i> Given the unfavorable past experience, the Bank should not undertake significant lending in the absence of clear progress in improving the policy and institutional environment for public investment. In particular, adjustment lending is unlikely to have a sustainable positive impact given the lack of social consensus for reform as well as the availability of resources from mineral exports and other donors. To support short-term stability, the Bank should help leverage the inflow of resources from donors and private investors by providing technical and advisory assistance to advance key policy and institutional reforms. Until the lending environment improves, the Bank should make use of LILs to engage the government and foster institutional reform, advance the environmental protection framework, and test basic rural infrastructure delivery mechanisms.</p>	<p>The Bank's major focus does remain on trying to improve the policy and institutional environment for public and private investment. It needs to be understood and appreciated, however, that investment lending remains a desirable and effective vehicle for addressing these issues and the best one for indigenous capacity building. Despite our acknowledged failures in investment lending in this difficult environment we do believe that we can make important contributions through selected lending interventions especially in critical sectors. It is with this in mind that we have designed our future lending program which does include a LIL. Similarly we have been advancing environmental protection and conservation for some time now through our focus on the forestry sector and will be extending this shortly with a forestry and conservation project that leverages GEF funding with Bank resources. A recent, mainly rural project, in response to the 1997 drought piloted a basic rural infrastructure delivery mechanism. We have recently been playing a role in coordinating a substantial technical assistance package from a major bilateral partner to PNG, mainly in support of structural reform. While we do recognize the importance of technical assistance in advancing institutional and policy reform, we cannot devote our own resources to this in a meaningful way and still have sufficient resources for an expanded program of AAA work, as indicated earlier.</p> <p>Regarding the issue of adjustment lending we are cognizant of the previous experiences. A number of points, do however, need to be emphasized: (a) lack of a social consensus for reform has not inhibited</p>	<p>The Bank will tie its base case lending program to broad based policy and institutional reform which would be supported through a SAL. That SAL, however, will require first that government demonstrate its commitment in meaningful ways and advance some important reforms—to establish a credible policy track record. Second, we will have to assure ourselves that the package of reforms to be supported under a SAL constitutes a strong and appropriate reform effort that will adequately begin to address the wide ranging problems in public sector governance as well as corporate governance that we have recently identified as core issues. We will only move forward if both these conditions are satisfied.</p>

Major Monitorable OED Recommendations Requiring a Response	Management Response	Actions
	<p>the Bank from undertaking <u>successful</u> adjustment lending in other countries in the past; (b) there is currently a significant social consensus in PNG favoring reform—that has actively and publicly called for wide ranging reforms to fix what is increasingly recognized as a broken public sector machinery; (c) there is a new Prime Minister who is acutely conscious of the need for broad ranging reform having served as a financial secretary more than two decades ago. Thus while the political consensus for reform is incomplete—vested political interests remain opposed to it—the new PM is a strong champion of reform and has made commitments in this regard and also undertaken a few early reform priorities; (d) The small modern/commercial private sector supports the Bank's engagement through adjustment lending as it regards this as bringing a certain accountability to Government, which is essential to its continued functioning; and (e) PNG is currently in the midst of its third financial crisis in a decade and the non-mineral economy is in recession: there is a significant balance of payments financing gap and a large overhang of domestic debt which require addressing urgently. Therefore the present time presents, a possible opportunity, which we need to seize upon to move the process of reform forward.</p>	

Major Monitorable OED Recommendations Requiring a Response	Management Response	Actions
<p><i>Help disseminate development objectives to build ownership.</i> Lack of consensus-building and transparency in the reform process in the past yielded a narrow support base that undermined political commitment to reforms and facilitated half-hearted implementation or reversal. The Bank should work closely with GOPNG to help disseminate the objectives, processes, and benefits of a long-term development strategy among elected officials, the civil service, the private sector, NGOs, and local village/clan groups in order to help build a consensus and foster ownership.</p>	<p>Notwithstanding the difficult operating environment of the recent past in PNG, we are redoubling our efforts to engage Government in discussions of the development policy agenda and objectives and increasingly trying to foster further dissemination of these. The recently completed CAS, for example, had a strong participatory orientation and the public discussions were intense. Similarly, during the past 2 years we have used visiting economic missions to make presentations and to give seminars on a variety of reform topics—trade policy reform, investment deregulation and financial sector reform—to diverse audiences including students, NGOs, government officials and the private sector. Over the past 12 months we have established an open and regular dialogue with the private sector in PNG on critical development issues and we intend to expand this dialogue to other important areas. We intend to continue and expand on some of these activities now, given the receptiveness of the new Government to the Bank and to reform, and build upon these to include the political levels. We have been encouraging greater transparency in decision-making as a way to foster improved accountability, a vital but missing link, in PNG.</p>	<p>We will re-start earlier initiatives of seminars and other public presentations by visiting missions as a way to foster an open dialogue and improve broader public understanding of issues of the day. Policy initiatives that we will also pursue, likely in the context of a SAL, will be to increase transparency in government operations, especially through greater disclosure.</p> <p>We will also initiate an activity to improve the understanding of these issues amongst parliamentarians through an activity to be carried out by the World Bank Institute, subject to resources.</p>

Annex Tables

- Table 1. Key Economic and Social Indicators, 1989-1998
- Table 2. Key Economic Indicators: PNG and Comparator Countries, 1988-1997
- Table 3. Changes in the Structure of Production
- Table 4. Composition of Exports (% of total export value)
- Table 5. Performance Ratings of Completed Projects
- Table 6. Formal Bank Economic and Sector Work, FY89-FY99
- Table 7. Completed and Active Projects, FY89-FY99
- Table 8. Bank Assistance Cost Indicators
- Table 9. Bank Management for PNG, 1990-1999
- Table 10. List of all Completed Projects in PNG
- Table 11. Average Project Performance Indexes, FY89-99

TABLE 1: PAPUA NEW GUINEA: KEY ECONOMIC AND SOCIAL INDICATORS, 1989 - 1998

<i>Indicator</i>	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 <i>est</i>	<i>Average 1970- 1979</i>	<i>Average 1980- 1989</i>	<i>Average 1990- 1998</i>
GDP growth (annual %)	-1.4	-3.0	9.5	11.8	16.6	5.2	-3.6	3.5	-4.6	2.5	3.9	1.4	4.2
GNP per capita growth (annual %)	-3.2	-5.1	7.7	3.4	15.5	3.5	-1.9	-0.7	-15.9		1.2	-0.9	0.8
GNP per capita, (current US\$)	950	880	940	990	1180	1230	1210	1160	940	890	480	628	1047
Population growth (annual %)	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.2		2.4	1.8	2.3
Total consumption (% of GDP)	84	77	76	74	65	70	73	64	67	67			70
Government consumption (% of GDP)	23	23	22	20	18	18	12	17	19	16			18
Gross investment (% of GDP)	21	22	25	21	17	13	18	25	24	24	25.1	20.4	21
Gross fixed capital formation (% of GDP)	24	23	25	21	17	12	18	25	24	24			21
Gross domestic savings (% of GDP)	11	16	18	20	29	33	38	40			16.9	8.8	28
Private investment (% of GDFI)	82	80	83	78	77	80	85	86				57.6	81
Exports of goods and services (% of GDP)	40	39	42	45	51	48	49	54	56	60	37.7	32.0	49
Imports of goods and services (% of GDP)	45	39	43	41	33	31	40	43	46	51	45.9	43.6	41
International tourism, receipts (% of total exports)	2.7	3.0	2.3	2.1	1.5	1.9	2.0	2.3				1.3	2
Exports of goods and services (annual % growth)	-0.9	-4.6	15.8	21.5	31.2	-0.5	-3.1	14.7	-1.2	10.4	14.7	3.2	9
Imports of goods and services (annual % growth)	-10.1	-16.7	20.1	6.4	-5.0	-1.2	24.3	10.4	3.9	13.4	4.1	-0.8	6
International tourism, growth in no. of arrivals (%)	20	-16	-10	16	-21	15	8	33				3.7	4
Aid (% of central government expenditures)			30	32	19	20							25
Aid (% of GNP)			11	11	7	6	8	8					8
Aid (% of gross domestic investment)			38	43	32	39	32	28					35
Aid per capita (current US\$)			101	110	75	78	87	88					90
Current account balance (% of GDP)	-9.1	-2.3	-4.1	2.2	12.6	11.0	18.0	5.4	-2.8	0.4	3.4	-9	4
Resource balance (% of GDP)	-12	-8	-10	-4	10	18	15	13			-8.2	-11.6	5
Trade (% of GDP)	93	90	94	95	90	89	103	101			83.6	75.6	94
Foreign direct investment, net inflows (% of GDI)	26	20	20	29	0	-1	38	16			7.5	13.1	17
Gross international reserves in months of imports	2.4	3.0	1.8	1.3	0.9	0.6	1.3	2.6	3.8	3.3	5.3	2.8	2
Total external debt (% of GDP)	65	80	72	88	64	51	50	46	48				
Debt service (% of exports goods and services)	33	37	27	28	29	31	21	13	14	23	14.6	22.0	25
Money and quasi money (M2) as % of GDP	34	35	35	35	34	30	29	36			28.6	26.5	34
Money and quasi money growth (annual %)	5.3	4.3	17.6	12.5	17.8	-1.3	13.7	30.7			23.3	5.7	14
Inflation, consumer prices (annual %)	4.5	7.0	7.0	4.3	5.0	2.9	17.3	11.6	4.0	13.6	9.0	5.5	8
Credit to private sector (% of GDP)	31	31	30	27	22	23	19	18			14.3	18.3	24
Domestic credit prov. by banking sector (% of GDP)	33	36	38	37	33	32	28	28			14.6	19.6	33
Fiscal balance, including grants (% of GDP)	-1.2	-3.5	-1.9	-5.3	-5.7	-2.2	-0.5	0.5	0.1	-2.2	-2.9	-2.6	-2

TABLE 2: KEY ECONOMIC INDICATORS: PAPUA NEW GUINEA AND COMPARATOR COUNTRIES, 1988-1997

<i>All figures are annual averages for the period 1988-1997</i>	PNG	Cambodia	Fiji	Indonesia	Lao	Malaysia	Mongolia	Philippines	Thailand	Vietnam	EAP	SSA	SAR
GDP growth (annual %)	3.6	5.5	3.1	7.6	7.4	8.8	0.0	3.8	8.5	7.7	8.6	2.2	5.7
GNP per capita growth (annual %)	0.5	2.5	1.9	6.0	4.7	5.9	-1.0	1.9	6.8	5.1	7.0	-0.5	3.8
GNP per capita, Atlas method (current US\$)	1043	218	2117	804	311	3105	353	870	2052	240	646	522	342
Agriculture, value added (% of GDP)	27	52	20	19	57	16	27	21	12	33	21	18	29
Industry, value added (% GDP)	36	14	24	40	18	41	35	33	38	28	42	35	28
Manufacturing, value added (% of GDP)	9	6	11	22	13	28	0	24	28	21	31	17	18
Services, etc., value added (% of GDP)	36	34	57	41	25	43	39	45	50	39	37	47	43
Exports of goods and services (% of GDP)	49	16	58	26	18	83	45	33	38	31	26	29	11
Imports of goods and services (% of GDP)	49	26	58	25	33	82	57	39	42	38	26	29	15
International tourism, receipts (% of total exports)	2	14	25	9	8	4	2	11	12	2	7	5	6
Trade (% of GDP)	97	42	116	51	52	165	102	72	80	69	53	57	26
Agriculture, value added (annual % growth)	3	4	1	3	4	3	5	2	4	5	4	3	4
Industry, value added (annual % growth)	6	8	5	10	13	11	-1	4	11	9	12	2	7
Manufacturing, value added (annual % growth)	3	8		11	15	14		4	11	..	12	1	7
Services, etc., value added (annual % growth)	3	7	2	8	6	9	-1	4	8	7	8	2	7
Aid (% of central government expenditures)	29		12	7		1	94	11	4				
Aid (% of GNP)	9	14	3	1	19	0	24	2	1	7	1	8	2
Aid (% of gross domestic investment)	37	107	23	4	107	1	100	9	2	50	4	47	7
Aid per capita (current US\$)	92	30	66	9	52	5	131	16	12	14	5	34	5
Gross domestic savings (% of GDP)	25	4	14	32	8	38	19	17	35	14	36	17	19
Gross domestic investment (% of GDP)	25	14	14	30	25	37	31	23	39	21	35	18	23
Gross international reserves in months of imports	1.8	1.7	3.5	3.2	1.6	3.8	2.7	2.6	4.7	1.5	3.9	1.4	3.7
Private investment (% of GDFI)	82	79	44	67	..	67	..	81	79	79	54	64	62
Foreign direct investment, net inflows (% of GDI)	17	18	21	5	15	16	4	7	5	17	8	8	2
Credit to private sector (% of GDP)	25	5	36	47	6	107	13	34	106	7	80	57	26
Domestic credit provided by banking sector (% of GDP)	33	7	41	46	9	116	27	45	110	21	84	72	50
Inflation, consumer prices (annual %)	6.9		5.2	8.1		3.6		10.1	5.1	..			
Money and quasi money (M2) as % of GDP	32	9	48	38	11	76	21	38	69	20			
Money and quasi money growth (annual %)	11	34	9	26	35	18	72	23	18	23			
Tax revenue (% of GDP)	19		21	16		20	19	15	16				
Taxes on goods and services (% of current revenue)	11		24	28		22	23	27	42		26	25	35
Taxes on international trade (% of current revenue)	25		26	5		15	13	25	18		16	28	26
Military expenditure (% of central government expenditure)	5		7	8	22	11	10	11	17	22			
Pupil-teacher ratio, primary	33	42	31	23	29	20	26	34	21	0	23	41	62
School enrollment, primary (% gross)	75	122	125	115	107	98	88	111	95	107	118	76	95
Illiteracy rate, adult total (% of people 15+)	38		10	17		16		6	6	9	18	45	51
Immunization, measles (% of children under 12 months)	63	48	81	84	50	77	85	85	72	90	89	51	77
Life expectancy at birth, total (years)	57	53	74	65	53	74	65	69	72	70	70	52	61
Mortality rate, infant (per 1,000 live births)	26			54		56		44	..	75	57	19	33
Safe water (% of population with access)	27	13	75	65	39	86	77	79	81	44	74	47	81
Sanitation (% of population with access)	21		85	55	17	88	100	76	80	61	..	47	20
Population density (people per sq km)	9	52	42	102	18	58	1	220	112	213	104	23	245
Population growth (annual %)	2.3	2.9	1.2	1.7	2.5	2.7	2.2	2.4	1.4	2.2	1.4	2.8	2.0
Urban population (% of total)	16	19	40	33	19	52	59	51	19	20	30	30	25

Source: WDI, 1998

TABLE 3: CHANGES IN THE STRUCTURE OF PRODUCTION

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Average 1990-1998
Sectoral Growth Rates (% Change)										
Agriculture, Forestry, and Fishing	2.2	-2.6	6.1	9.5	4.6	2.1	6.1	-4.2	-6.4	1.9
Mining and Quarrying	22.8	41.9	8.5	-4.6	0.9	-2.9	-24.7	-14.7	59.5	9.7
Petroleum				215.1	-5.2	-14.8	6.2	-28.8	8.4	30.1
Manufacturing	-22.8	15.8	8.0	1.6	7.2	-1.6	14.7	5.2	-0.1	3.1
Electricity, Gas, and Water	0.0	5.5	4.1	-2.0	6.9	-0.5	6.0	-0.2	5.2	2.8
Construction	-8.6	33.0	-8.0	-12.9	21.0	-27.8	69.1	-7.9	18.3	8.5
Trade, Transport, Finance	-9.4	15.2	1.5	4.8	9.2	-0.5	8.6	6.9	-1.4	3.9
Community and social services	-2.7	-0.6	5.0	5.7	10.3	-2.7	-7.8	5.0	-10.0	0.2
Real GDP growth	-3.0	9.5	11.8	16.6	5.2	-3.6	3.5	-4.6	2.5	4.2
Sectoral Share of GDP (%)										
Agriculture, Forestry, and Fishing	34.2	30.4	28.8	27.1	26.9	28.5	29.2	29.3	26.8	29.0
Mining and Quarrying	11.8	15.3	14.8	12.1	11.6	11.7	8.5	7.6	11.9	11.7
Petroleum	0.0	0.0	6.5	17.5	15.8	14.0	14.3	10.7	11.3	10.0
Manufacturing	8.2	8.7	8.4	7.3	7.5	7.6	8.4	9.3	9.1	8.3
Electricity, Gas, and Water	1.6	1.5	1.4	1.2	1.2	1.2	1.3	1.3	1.4	1.3
Construction	4.6	5.6	4.6	3.5	4.0	3.0	4.9	4.7	5.4	4.5
Trade, Transport, Finance	17.7	18.6	16.9	15.2	15.7	16.2	17.0	19.1	18.4	17.2
Community and social services	16.4	14.9	14.0	12.6	13.2	13.4	11.9	13.1	11.5	13.4
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sectoral Distribution of Employment (% of Total Employment)										
Retail	6.0	6.1	5.8	5.7	5.7	6.3	6.1	6.7	7.3	6.2
Wholesale	2.2	2.1	2.2	2.1	2.1	2.1	1.9	2.0	2.0	2.1
Manufacturing	8.1	8.3	8.6	8.8	9.6	9.3	9.1	9.5	9.5	9.0
Building and Construction	12.8	9.9	9.1	8.7	8.7	8.3	9.9	9.6	8.5	9.5
Transportation	6.6	6.3	5.5	5.3	5.3	5.3	5.4	5.5	5.6	5.6
Agriculture, Forestry, and Fishing	27.5	28.3	29.8	29.1	29.2	26.7	26.3	24.1	21.1	26.9
Financial and Business	5.0	4.8	4.8	4.7	4.3	5.0	4.9	5.4	6.0	5.0
Other	8.1	8.8	8.8	9.0	9.2	10.8	10.8	11.0	11.2	9.7
Total Non-Mineral Sectors	76.3	74.6	74.5	73.5	74.0	73.7	74.5	73.6	71.3	74.0
Total Mineral Sector	2.3	2.3	2.4	2.4	2.2	2.5	2.5	2.5	3.1	2.5
Total Public Sector	21.4	23.0	23.1	24.1	23.8	23.8	23.1	23.8	25.7	23.5
Total Private Sector	78.6	77.0	76.9	75.9	76.2	76.2	76.9	76.2	74.4	76.5
Total Employment	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Fixed Investment as a Share of GDP (%)										
Total Fixed Investment	25.1	28.0	23.3	18.1	14.5	19.4	27.9	27.1	30.3	23.7
Public Investment	5.1	4.7	5.1	4.3	2.8	3.6	3.7	5.4	6.9	4.6
Private Investment	20.0	23.3	18.2	13.8	11.6	15.7	24.2	21.6	23.3	19.1
Mining	11.4	15.9	10.8	4.7	2.1	7.2	15.3	12.1	14.5	10.4
Non-mining	8.6	7.4	7.4	9.1	9.5	8.6	8.9	9.5	8.9	8.7
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Source: World Bank</i>										

TABLE 5: PERFORMANCE RATINGS OF COMPLETED PROJECTS

Sector/Subsector	No. of projects	Total disbursed (1996 US\$)	Percent of total lending	Percent SAT (by no.)	Percent LIK Sust.	Percent SUB ID	Percent SAT Bank Ident.	Percent SAT Bank Appr.	Percent SAT Bank Superv.	Percent SAT Borr. Prep.	Percent SAT Borr. Impl.	Percent SAT Borr. Compl.	Percent ARPP DO SAT at exit
Lending to PNG, exit FY89-99	13	447.4	48.7	30.8	15.4	7.7	66.7	58.3	50.0	62.5	40.0	55.6	69.2
Lending to PNG, exit FY73-88	19	470.6	51.3	78.9	60.0	40.0	100.0	33.3	33.3	NRAT	100.0	0.0	90.9
All Lending to PNG, (since FY73)	32	918.0	100.0	59.4	27.8	16.7	73.3	53.3	46.2	62.5	45.5	45.5	79.2
<i>Regions: Exit Years FY90-99</i>													
AFR Region	592	24,328	17	56	29	24	81	60	70	71	52	50	
EAP Region	310	31,384	22	84	68	42	90	76	83	88	77	79	
ECA Region	130	16,056	11	76	61	44	90	80	84	84	71	75	
LCR Region	320	35,005	24	74	54	37	86	62	74	77	63	70	
MNA Region	169	10,773	7	68	49	29	84	65	73	78	61	64	
SAR Region	251	27,966	19	70	43	29	86	59	76	74	62	65	
Bank-wide	1772	145,513	100	69	47	32	85	65	75	77	62	64	
<i>Source: OED Database</i>													

TABLE 6: FORMAL BANK ECONOMIC AND SECTOR WORK, FY89-FY99

Report Number	Report Date	Report Name	Sector	Type
PUB7121	1-Aug-88	Papua New Guinea - Policies and prospects for sustained and broad-based growth	Broad policy reform	Country Study
7707	21-Apr-89	Papua New Guinea - Opportunities and challenges for accelerated development	Broad policy reform	Economic Report
8031	1-Feb-90	Papua New Guinea - The forestry sector : a tropical forestry action plan review	Agriculture	Sector Report
8518	30-Apr-90	Papua New Guinea - Strategy for adjustment and growth	Broad policy reform	Economic Report
8959	25-Feb-91	Management, manpower, money: A Select Review of Health and Population in Papua New Guinea	Social sectors	Sector Report
9396	1-May-91	Papua New Guinea - Structural adjustment, growth and human resource development	Broad policy reform	Economic Report
10319	1-Mar-92	Papua New Guinea - Competitiveness, growth and structural adjustment	Broad policy reform	Economic Report
10441	31-Jul-92	Pacific Region - Pacific regional energy assessment	Energy	Sector Report
11653	3-May-93	Papua New Guinea - Jobs, economic growth and international competitiveness	Broad policy reform	Economic Report
14414	1-Aug-95	Papua New Guinea - Delivering public services	Social sectors	Sector Report
14906	7-Aug-95	Papua New Guinea - Country assistance strategy	CAS	CAS
16737	1-Jun-97	Papua New Guinea - Accelerating agricultural growth : an action plan	Agriculture	Sector Report
18420	30-Jun-98	Papua New Guinea - Education Sector Study	Education	Sector Report
19388	30-Jun-99	Papua New Guinea - Improving Governance and Performance	Broad policy reform	Economic Report

Source: World Bank

TABLE 7: COMPLETED AND ACTIVE PROJECTS, FY89-FY99

ID	Sector	Subsector	Project title	Approval date	Closing date	Net Amt. (FY96\$m)	Percent Cancelled	Outcome (sat/unsat)	Sust.
AGRICULTURE									
L2624	Agriculture	Agricultural Credit	Agricultural Credit 3	9/19/1985	12/31/1989	24	0%	UNSAT	UNC
L2608	Agriculture	Perennial Crops	Nucleus estate & smallholder (Milne Bay)	7/23/1985	9/30/1992	35.24	0%	UNSAT	LIK
L2475	Agriculture	Agriculture Adjustment	West Sepik provincial development	10/30/1984	12/31/1992	12.65	4%	UNSAT	UNC
L3051	Agriculture	Other Agriculture	Land Mobilization	5/4/1989	6/30/1997	21.8	2%	UNSAT	UNC
L3485	Agriculture	Perennial Crops	Oro Smallholder Oil Palm	6/9/1992	ACTIVE	27		POT. RISK	
L4316	Agriculture	Other Agriculture	Emergency El Nino	4/21/1998	ACTIVE	5		AT RISK	
NATURAL RESOURCE MANAGEMENT									
L3670	Oil & Gas	Oil & Gas Exploration & Develo	Petroleum Development TA	12/9/1993	ACTIVE	11		NO RISK	
SOCIAL SERVICES									
L2395	Education	Secondary Education	Secondary Education	3/27/1984	12/31/1990	70.79	0%	SAT	UNC
L3591	PHN	Targeted Health	Population	4/13/1993	ACTIVE	6.9		AT RISK	
L3537	Education	Secondary Education	Education Development	12/8/1992	ACTIVE	35		AT RISK	
INFRASTRUCTURE									
L2722	Power	Hydro	Yonki hydroelectric project	6/19/1986	12/31/1992	34.01	7%	SAT	LIK
L3154	Telecommunications	Telecommunications & Informati	Telecommunications 3	1/4/1990	6/30/1996	13	32%	UNSAT	UNC
L2265	Transportation	Highways	Road Improvement	4/19/1983	6/30/1992	46.79	0%	SAT	UNC
L2742	Transportation	Other Transportation	Transport Improvement	7/22/1986	12/31/1994	51.92	6%	UNSAT	UNC
L3289	Urban Development	Urban Housing	Special Interventions	1/29/1991	12/31/1996	18.88	42%	UNSAT	UNL
STABILIZATION AND STRUCTURAL ADJUSTMENT									
L3218	Multisector	Economic Management	SAL	6/5/1990	6/30/1993	55.59	0%	UNSAT	UNL
L3934	Multisector	Economic Management	Economic Recovery Program	8/29/1995	12/31/1996	50	0%	SAT	UNC
PUBLIC SECTOR MANAGEMENT									
L3290	Public Sector Management	Institutional Development	Public Sector Training	1/29/1991	3/31/1999	20.8		PDO: SAT	
<i>Source:</i> World Bank									

ID
Impact
MOD
SUB
NEG
NEG
MOD
NEG
MOD
NEG
MOD
NEG
MOD
MOD

TABLE 9: BANK MANAGEMENT FOR PNG, 1990-1999

<i>Year</i>	<i>Vice President</i>	<i>Country Director</i>	<i>Country Operations Division Chief</i>	<i>Country Officer</i>	<i>Country Economist</i>	<i>Note: Prime Minister</i>
1990	Attila Karaosmanoglu	Russell J. Cheetham	Amar Bhattacharaya	Eilert J. de Jong	Zia Quereshi	Namaliu
1991	Attila Karaosmanoglu	Russell J. Cheetham	Amar Bhattacharaya	Eilert J. de Jong	Lloyd Kenward	Namaliu
1992	Gautam S. Kaji	Marianne Haug	Amar Bhattacharaya	Eilert J. de Jong	Lloyd Kenward	Wingti
1993	Gautam S. Kaji	Marianne Haug	John D. Shilling	Eilert J. de Jong	Habib Fetini	Wingti
1994	Gautam S. Kaji	Marianne Haug	Ajay Chhibber	Monique Garrity	Habib Fetini	Chan
1995	Russell J. Cheetham	Marianne Haug	Ajay Chhibber	Pirouz Hamidian-Rad	Pirouz Hamidian-Rad	Chan
1996	Russell J. Cheetham	Marianne Haug	Ajay Chhibber	Pirouz Hamidian-Rad	Pirouz Hamidian-Rad	Chan
1997	Cheetham/Hope/ Shirazi/Haug	Marianne Haug	Richard Calkins	Pirouz Hamidian-Rad	Pirouz Hamidian-Rad	Skate
1998	Jean Michel-Severino	Klaus Rohland	...	Bilal H. Rahill	Cyrus Talati	Skate
1999	Jean Michel-Severino	Klaus Rohland	...	Bilal H. Rahill	Curus Talati	Maurata

TABLE 10: LIST OF ALL COMPLETED PROJECTS IN PNG

OED ID	Approval Date	Project Name	Sector	Net Amt. (96US\$m)	Outcome	Sustainability	Inst. Dev.
L0546	25-Jun-68	Telecommunications project	Telecommunications	33	Satisfactory	Not rated	Not rated
C0137	14-Jan-69	New Britain smallholder development project	Agriculture	5.87	Satisfactory	Not rated	Not rated
C0175	13-Jan-70	Agricultural development project	Agriculture	12.44	Satisfactory	Not rated	Not rated
C0175a	13-Jan-70	Agricultural development project	Agriculture	5.85	Satisfactory	Not rated	Not rated
L0693	11-Jun-70	Highway project	Transportation	32.93	Satisfactory	Not rated	Not rated
L0737	27-Apr-71	Upper Ramu hydroelectric development project	Electric Power & Other Energy	76.47	Satisfactory	Not rated	Not rated
C0326	25-Apr-72	Port project	Transportation	27.15	Satisfactory	Not rated	Not rated
L0852	25-Apr-72	Second telecommunications project	Telecommunications	29.51	Satisfactory	Not rated	Not rated
C0348	31-Oct-72	Smallholder livestock credit project	Agriculture	13.17	Unsatisfactory	Not rated	Not rated
L0999	28-May-74	Second power project	Electric Power & Other Energy	25.57	Satisfactory	Not rated	Not rated
C0661	19-Oct-76	Education project	Education	7.51	Satisfactory	Not rated	Not rated
L1333	19-Oct-76	Popondetta smallholder oil palm development project	Agriculture	22.53	Satisfactory	Not rated	Not rated
C0677	25-Jan-77	Second highlands road improvement project	Transportation	34.73	Unsatisfactory	Unlikely	Modest
L1551	18-Apr-78	Second port project	Transportation	5.37	Satisfactory	Not rated	Not rated
C0841	25-Jul-78	Rural development project	Agriculture	32.93	Satisfactory	Not rated	Not rated
L1856	27-May-80	Third highway project	Transportation	49.42	Unsatisfactory	Unlikely	Modest
C1087	23-Dec-80	Primary Education	Education	29.02	Satisfactory	Likely	Substantial
C1149	21-May-81	Second agricultural credit project	Agriculture	24.18	Satisfactory	Not rated	Not rated
C1227	6-Apr-82	Enga provincial development project	Agriculture	10.91	Unsatisfactory	Likely	Modest
C1279	1-Jul-82	Petroleum exploration technical assistance project	Oil & Gas	4.52	Satisfactory	Likely	Substantial
L2265	19-Apr-83	Road Improvement	Transportation	46.79	Satisfactory	Uncertain	Negligible
L2276	3-May-83	Agricultural support services project	Agriculture	12.73	Unsatisfactory	Uncertain	Modest
L2395	27-Mar-84	Secondary Education	Education	70.79	Satisfactory	Uncertain	Modest
L2475	30-Oct-84	West Sepik provincial development project	Agriculture	12.65	Unsatisfactory	Uncertain	Negligible
L2608	23-Jul-85	Nucleus estate and smallholder (Milne Bay) project	Agriculture	35.24	Unsatisfactory	Likely	Substantial
L2624	19-Sep-85	Agricultural Credit 3	Agriculture	24	Unsatisfactory	Uncertain	Modest
L2722	19-Jun-86	Yonki hydroelectric project	Electric Power & Other Energy	34.01	Satisfactory	Likely	Negligible
L2742	22-Jul-86	Transport Improvement	Transportation	51.92	Unsatisfactory	Uncertain	Modest
L3051	4-May-89	Land Mobilization	Environment	21.8	Unsatisfactory	Uncertain	Negligible
L3154	4-Jan-90	Telecommunications 3	Telecommunications	13	Unsatisfactory	Uncertain	Modest
L3218	5-Jun-90	SAL	Multisector	55.59	Unsatisfactory	Unlikely	Modest
L3289	29-Jan-91	Special Interventions	Urban Development	18.88	Unsatisfactory	Unlikely	Negligible
L3934	29-Aug-95	Economic Recovery Program	Multisector	50	Satisfactory	Uncertain	Modest

Source: MIS, World Bank

TABLE 11: AVERAGE PROJECT PERFORMANCE INDEXES, FY89-99

Country	Average of APPI	No. of Projects (ARPP exit years FY89-99)	Country	Average of APPI	No. of Projects (ARPP exit years FY89-99)
Congo, DR	4.07	32	Guinea	6.34	30
Somalia	4.08	16	Morocco	6.36	50
Cameroon	4.41	19	Mauritius	6.36	13
Central African Republic	4.68	14	Mauritania	6.40	19
Rwanda	4.95	22	Yemen, Rep	6.42	18
Algeria	4.96	29	Sri Lanka	6.48	35
Yugoslavia, former	5.04	23	Ethiopia	6.54	20
Nigeria	5.20	44	Madagascar	6.54	34
Kenya	5.25	37	Ecuador	6.54	18
Togo	5.29	17	Brazil	6.55	78
Burundi	5.34	20	Tanzania	6.55	27
Papua New Guinea	5.37	15	Philippines	6.58	48
Guatemala	5.53	10	Burkina Faso	6.62	19
Niger	5.54	21	Zimbabwe	6.72	15
Sudan	5.61	20	Peru	6.72	18
Haiti	5.69	14	Ghana	6.76	51
Turkey	5.71	44	Cyprus	6.86	11
Yemen Arab Republic	5.74	19	Tunisia	6.86	43
Gambia	5.77	11	Mexico	6.88	71
Zambia	5.79	23	Indonesia	7.02	104
Honduras	5.83	13	Argentina	7.04	37
Guinea-Bissau	5.84	14	Mozambique	7.08	17
Myanmar	6.00	16	Jordan	7.10	29
Mali	6.01	23	Benin	7.11	19
Chad	6.02	12	Lao PDR	7.23	13
Cote d'Ivoire	6.06	30	Poland	7.23	13
Bangladesh	6.06	55	Bolivia	7.27	27
Egypt	6.10	32	Thailand	7.46	28
Nepal	6.11	32	Malaysia	7.47	29
Malawi	6.12	27	Korea, Rep	7.68	42
Colombia	6.14	37	Uruguay	7.78	16
Uganda	6.18	30	China	7.79	100
Senegal	6.21	30	Hungary	7.86	27
Jamaica	6.24	23	Chile	7.89	22
India	6.30	132	ALL COUNTRIES	6.41	2452
Pakistan	6.33	64			

Note: The Aggregate Project Performance Index (APPI) is a composite rating that combines outcome, insitutional development impact, and sustainability ratings of projects. The APPI is on a scale of 1-10, with 10 being the best. This list includes all countries with at least ten projects exiting the portfolio between 1989 and 1999.

Source: OED

Report from CODE

Committee on Development Effectiveness

Papua New Guinea - Country Assistance Evaluation

The Committee met on December 1, 1999 to discuss the Papua New Guinea (PNG) Country Assistance Evaluation (CODE99-85). The Committee thanked OED for a useful report, and broadly supported its findings and recommendations. Members were pleased to note Bank Management's general agreement with the findings of the report. Management stressed the complexities of the PNG country situation, including ethnic and tribal issues (800 languages in a country of 4.5 million), multiple government changes, dependence on export industry, a fragile macroeconomic situation that had been exacerbated by the Asian crisis, and prolonged drought coupled with natural disasters. However, Management also said that a new, reform-minded government came to office in July 1999, and is genuinely interested in working with the Bank. Accordingly, there is now a unique window of opportunity for Bank intervention.

The CAE questioned the relevance and sustainability of past Bank assistance to PNG and found that the Bank's program had been largely unsatisfactory due to limited political will on the part of the Government to reform, poor implementation of promised reforms, frequent changes in government, and a weak and often strained relationship between the Bank and PNG. The key recommendations from the CAE which have been reflected in the CAS include focusing Bank assistance on non-lending services, technical and advisory assistance, and institution building and restraining investment lending in the absence of clear progress; collaborating with the Government of PNG to put in

place a long term monitorable development strategy; establishing a field presence; and creating a broader base of support for the reform process and the long-term development strategy. Members welcomed the report of the incorporation of the study's key findings in the CAS. The Committee also generally supported Management's decision to focus on non-lending services in the past few years and urged a cautious stance in moving forward with a more ambitious program until the new Government had proved that it could actively engage in dialogue with the Bank and implement serious reforms. Management indicated they were now in a unique position to leverage economic and sector work into a broader program should the new Government continue on its promising path.

Issues discussed included:

Ownership Portfolio Performance. Most speakers strongly supported the study's findings that lack of ownership and political will from the Government were key reasons for the weak performance of the PNG program. One speaker stressed that the current Bank team had made significant improvements in this regard and the current SAL represented a policy reform agenda drawn up by the Government rather than the Bank. Another speaker stressed that the low quality of the portfolio may not be due only to the Government: problematic adjustment loans in which reforms were reversed or not implemented were not unique to PNG, and poor project design or lack of focused project objectives could also have contributed to poor portfolio performance.

Assistance to PNG. Most speakers supported the report's findings with regard to focusing on non-lending services, including economic and sector work, poverty alleviation and rural development, until the climate in PNG proved amenable to lending activity. Most speakers also took a cautious stance to expanding the PNG program and stated that it was necessary for an IMF program to be in place in advance of any adjustment lending by the Bank. With respect to investment lending, many felt that Bank projects should focus on specific areas of need such as health, education and rural development. Some stressed that capacity building and technical assistance were clear comparative advantages of the Bank and the Bank should offer this type of assistance. One speaker argued in favor of a larger adjustment and investment lending

program in order to grapple with PNG's problems. Others questioned whether the extent of the results the Bank was getting in PNG justified additional WB expenditures in non-lending or lending activity given questions about the sustainability of the WB program. One speaker questioned whether the Bank was equipped to assist PNG given the extremely complex nature of the country and whether a social assessment was not needed first. Another noted that considerable social analysis has been undertaken by the UNDP as well as by academics.

Field Presence. Many speakers supported the notion of establishing a stronger field presence in order to improve the Bank's program with PNG. Some felt a stronger field presence would enhance donor coordination as well as the quality of WB programs. Some speakers felt that it was important that the field presence be in PNG rather than in Australia. One speaker questioned the need for a field presence in both PNG and Australia urging close review of costs and benefits and queried whether it was not the role of regional development banks, such as the ADB, to establish a larger presence. Another speaker wondered whether a larger field presence was justified given the remoteness of the country and questions about the sustainability of the Bank's program.

Donor Coordination. Many speakers emphasized the importance of donor coordination, particularly in a difficult environment like PNG. Speakers also asked about the study's findings with regard to inconsistencies in the advice given by the nVIF and the World Bank and stressed the need to improve IMF-WB coordination. Another speaker noted, from personal observations, that recent Bank-Fund cooperation appeared to be as strong as possible, particularly in the context of the organizations' different structures.

Private Sector. One speaker wondered about the role of the private sector and stated that IFC and MIGA both needed to be more active in PNG. IFC could assist in developing PNG's private sector strategy.

Gender. One speaker raised questions about the particularly troubling findings with regard to the status of women in PNG. She wondered what the Bank's programs were doing with regard to violence against women, access to education for women, and women's mortality.

Bassary Toure
Acting Chairperson

Distribution

Executive Directors and Alternates

President

Bank Group Senior Management

Vice Presidents, Bank, IFC and MIGA

Directors and Department Heads, Bank, IFC and MIGA