

Country Operational Strategy Study

Over the next few years, the existing Country Operational Strategy Study will be revised and replaced by the [Country Strategy and Program](#) documents.

The country operational strategy study (COSS) is the primary country-specific document in ADB's planning and programming cycle. It is prepared in close consultation with developing member countries --DMCs, and other aid agencies.

The COSS is anchored on strong sectoral analysis. It

- provides the basis for determining ADB's country-specific, thematic, and sectoral priorities
- provides a framework for country performance review
- identifies and describes ADB's distinctive role in the DMC in the context of its strategic objectives and the development priorities of the DMC
- facilitates ADB's decisions regarding choices in its operational program in the DMC
- provides the strategic framework to guide the preparation of the Country Assistance Plans

The COSS is usually prepared once every three years and is revised, as necessary, in the last quarter of a year for guiding the succeeding year's operational decisions.

ASIAN DEVELOPMENT BANK

STS:PNG 98012

COUNTRY OPERATIONAL STRATEGY STUDY

PAPUA NEW GUINEA

March 1999

CURRENCY EQUIVALENTS
(as of 15 March 1999)

Currency Unit	—	kina
K1.00	=	\$0.4210
\$1.00	=	K2.3753

ABBREVIATIONS

AusAID	-	Australian Agency for International Development
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
IMF	-	International Monetary Fund
MTDS	-	Medium-Term Development Strategy
NGO	-	Nongovernment organization
PDMC	-	Pacific Developing Member Country
PNG	-	Papua New Guinea
TA	-	Technical Assistance
UNDP	-	United Nation Development Programme

NOTES

- (i) The Government's fiscal year (FY) ends on 31 December.
- (ii) In this Report, "\$" refers to US dollars.

EXECUTIVE SUMMARY

- Papua New Guinea (PNG) is currently undergoing a severe economic crisis, in part due to the ill effects of Asian financial problems, and in part due to the Government's continuing inability to translate large revenues from its rich minerals sector into sustainable development for the country at large. Gross Domestic Product declined by 4.6 per cent in real terms in 1997. The trend has continued: although mining growth boosted overall growth in 1998 to 2.4 percent, nonmining activity fell by 3.7 percent.
- The economy is dualistic, with a traditional quasi-subsistence rural sector co-existing with a modern minerals sector. The quality of life in many rural areas and for under-employed urban dwellers is poor. The Human Development Index of the United Nations Development Programme places PNG 129th out of 174 countries, and last among the Bank's Pacific developing member countries. Private investment, at less than 15 percent, is low. Government investment in recent years has mostly been in the mining and petroleum sectors.
- Government capacity to manage policy and services is generally poor; this is further exacerbated by the recent Organic Law, which decentralized responsibility for services to provinces and districts with national agencies retaining mainly the policy making function.
- The Government's negotiations of a structural adjustment program with the International Monetary Fund and the World Bank have been protracted. As part of this exercise, there has been a fiscal tightening and a review of the tax and tariff regimes, and value-added-tax is to be introduced in mid-1999.
- The Government recently released its Medium-Term Development Strategy. It provides a frank assessment of governance shortcomings, sets out key policy issues, and presents a clear plan of action. Its top development priorities are controlling recurrent expenditure; reviewing the role of the Government; and focusing government expenditures on private sector development, primary and preventive health care, primary education, and maintenance of infrastructure. The major task ahead is how to effectively and fully operationalize the strategy within a reasonable time horizon.
- The key priority of the Bank's new country strategy is to strengthen governance and public sector management. This must include downsizing the public sector, assisting the Government to leave investment and services where it has no comparative advantage to the private sector and nongovernment organizations; and professionalizing public service with the introduction of results-focused management, accountability, and performance monitoring.
- Sector priorities in the Bank's new strategy will include the productive sectors of agriculture and fisheries. PNG has rich resources in these areas, and effective policy support and service to them can greatly enhance investment, productivity, employment, and incomes.
- Infrastructure development remains a key constraint to private sector development and will therefore also be a priority of Bank investment. Emphasis will be on the policy framework governing the sector, and on investment in rehabilitation and maintenance.
- Social infrastructure support is essential, with special focus on health (emphasis on basic, rural, preventive), education (especially skills development) and water supply. Women's groups will be given priority as beneficiaries in such assistance.

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I. INTRODUCTION

1. This paper updates the Country Operational Strategy Study for Papua New Guinea (PNG) reviewed by the Board in May 1994. From 1993 to 1996, Bank lending to PNG was effectively suspended. Since 1995 there has been a negative resource transfer, i.e., PNG has been repaying the Bank more than is being disbursed to it. In late 1996, the Government issued a major policy statement, the *Medium-Term Development Strategy 1997-2002* (MTDS), acknowledging its problems and setting out a coherent strategy for the nation's development over the next five years. During 1996-1997, the Government also demonstrated strong commitment to continuing International Monetary Fund (IMF)/World Bank-supported economic policy reforms. Bank lending to PNG resumed in 1997. Harnessing the Bank's capabilities to help PNG fulfill its own development ambitions is the challenge. The purpose of this review is to determine the Bank's operational strategy for meeting this challenge over the next few years.

II. THE MACROECONOMIC SETTING

2. Between 1980 and 1993, PNG's real gross domestic product (GDP) grew at an average annual rate of 7 percent, driven by a rapidly expanding minerals sector. With population growing at 2.3 percent per annum, the per capita growth rate was 5 percent, so that average income almost doubled during this period. Per capita GDP was \$1,256 in 1993, which placed PNG in the middle range of the Bank's Pacific developing member countries (PDMCs). Since 1993, the growth performance has been disappointing. An unsustainable fiscal expansion, exacerbated by a weakening of mineral export prices, led to a balance of payments crisis in 1994. A new government was forced to cut public expenditure, float the currency, and adopt an economic reform program developed in consultation with IMF and the World Bank. Real GDP increased by 5.2 percent in 1994, but fell by 2.9 percent in 1995. In 1996, there was a short-lived recovery, led by the construction sector and bolstered by stronger growth in agriculture, with real GDP increasing by 3.9 percent.

3. PNG has been through a difficult period since 1997, due to changes in mining and petroleum output and investment, commodity price movements, and the effects of the El Niño-related drought on agriculture and mining output. The tsunamis in July 1998 added to the general difficulties (and pointed out deficiencies in preparations for emergencies). Overall GDP declined in 1997 by a real 4.6 percent, and nonmining GDP stagnated (a 0.1 percent decline). Performance in 1998 continued to be weak, with nonmining GDP declining by almost 4 percent due to the continuing effects of the drought, but mitigated by some growth in mining and petroleum. Partly because of internal economic developments and partly because of the Southeast Asian economic crisis, the kina depreciated rapidly in the first half of 1998. There has since been some stabilization and the kina now stands at only just over half of its mid-1997 levels. One very promising development is the stabilization of the Bougainville conflict. The 1997 ceasefire has held, and a formal truce has been signed; the social and economic benefits from an end to the 10-year war would be enormous.

III. DEVELOPMENT ISSUES AND CONSTRAINTS

A. Overview

4. Though well endowed with natural resources, PNG's continuing over-dependence on mineral extraction underscores the structural imbalance of the economy. The nonmining

sectors remain underdeveloped, the public service is weak, social services are poor, the investment rate is low, and physical and social infrastructure are inadequate. Although PNG ranks in the middle of PDMCs in terms of per capita GDP (currently just under \$900 affected the depreciation of the kina), social indicators are poor, and PNG has the lowest Human Development Index (HDI) ranking in the Pacific. Female health, education, and participation indicators are low. Unemployment is very high and rising, and contributes to a serious law-and-order problem. The pristine environment is under threat, especially from logging.

5. The task ahead is made difficult by PNG's geographic features and population characteristics. PNG comprises over 600 islands, but 85 percent of its land mass is the eastern half of an island shared by Irian Jaya, Indonesia. It has very rugged terrain, with 75 percent covered in rain forest. All but 9 percent of the land area of 642,000 square kilometers is held by customary landowners, who have considerable rights over the extraction of resources. Communities in PNG have developed over 800 different languages, with diverse customs and traditions, in part due to the poor transportation network and difficulties of access.

6. PNG is one of the most important areas for rain forest and marine conservation in the world. It harbors about 7 percent of the world's biological diversity. There are extensive tracts of tropical forests, mangroves, freshwater and estuarine wetlands, and coral reefs. This rich biodiversity provides the country with immense alternative development potential, if managed in an environmentally and culturally sustainable manner. However, the environment is under constant threat from development, consumption, urbanization, infrastructure development, and population growth.

7. The population of PNG is young with 42 percent under the age of 15. This is a consequence of high fertility, implying a high level of youth dependency and potential for rapid future population growth; the population is expected to double over the next 35 years. This will have serious ramifications, particularly in the areas of health, education, and job creation. Only 15 percent of the population is urban.

8. PNG gained independence in 1975 and has since maintained a parliamentary form of government. PNG has a free press, an independent judiciary, and a constitution that provides legal protection for human rights. However, the country faces various human rights challenges, involving corruption, excesses by law enforcement agencies, discrimination and violence against women, and tribal conflicts.

9. Overall, PNG enjoys substantial revenue from resource extraction, but it has been largely unable to translate national income into human development. The nation's development problems are principally those of development management and governance. With reasonable institutional capacity for development management, the economy could grow at 3-4 percent a year. With good administration and major reforms, it could do much better.

B. Economic Aspects and Development Challenges

10. The economy is dualistic, with the traditional quasi-subsistence sector coexisting with a modern minerals sector. The latter performs well, generates large revenues for the Government, and enjoys an environment of generally sensible policies. However, the performance of the rest of the economy has been poor. PNG has major gold and copper deposits, large oil and gas reserves, extensive forests, and plentiful fish stocks. Incomes associated with mineral and petroleum extraction together with external assistance help fund

development activities, but the country's size, rugged terrain and the difficulty of serving a small, scattered, and diverse population greatly inhibit development. These factors have hampered establishment of effective domestic markets, discouraged private investment except in extractive industries, constrained the outreach of health and education services, and retarded the development of an effective public administration. Eighty-five percent of the people are in the transition between subsistence and the cash economy, with income at less than a third of the average for PNG as a whole.

11. The critical management issue, therefore, is how best to deploy the revenue from exhaustible mineral assets to support sustainable development. The challenge is for government to focus on the long term and to use mining and petroleum revenues to make nonmining activities efficient, build the capital assets of the country, and make public services effective, while avoiding unproductive growth in the public sector.

12. Creating sustainable cash-earning opportunities for the population is an overwhelming development challenge. Of the potential work force of about 2 million people, only one in eight is employed in the formal sector. With the population growing at 2.3 percent a year, the work force is increasing annually by over 50,000, yet fewer than 10,000 formal jobs are created each year. In 1995, an estimated one in three persons in the labor force was without regular income, up from one in twenty in 1980. Most wage employment is in urban areas; for rural dwellers there is essentially only subsistence employment. The resulting migration to towns has contributed to law-and-order problems.

13. High wages and low productivity are long-standing features of the economy. There is a chronic lack of skilled labor at all levels, and continued heavy reliance on expatriates. The Government successfully translated the substantial fall in the value of the kina following the 1994 float into a sustained improvement in competitiveness by restraining the growth in nominal wages. Such measures create optimism that the continuing fall in the kina could lead to a further improvement in competitiveness.

14. Indigenous entrepreneurs have been slow to emerge. Small enterprises account for under 4 percent of GDP and 4 percent of formal sector employment in contrast to approximately 50 percent in many other developing countries. Agriculture, including forestry and fisheries, and small enterprise development provide the best prospects for large-scale employment creation. Although the development of the nonmineral sector is a high Government priority, the combined effects of inadequate and costly transportation systems, low literacy rates, shortages of skilled workers, high labor costs, housing shortages, inefficient financial markets, law-and-order problems, poor access to microcredit, the complexities of land acquisition, and the gender division of labor have made such development very difficult.

15. Private investment, at less than 15 percent of GDP, is low. National investment in recent years has mostly been in the mining and petroleum sectors. Oil and mining projects brought a sharp increase in private investment, which peaked in 1991 at 23 percent of GDP and declined rapidly as the related construction came to an end. Since then private investment has been around 13 percent of GDP. Except for 1993 when expenditure increased rapidly, Government investment, at around 4 percent of GDP, has been also low, typically only about half that of other DMCs. As to savings, there was a net capital inflow during the 1980s, while domestic savings typically averaged around 15 percent of GDP. Domestic savings grew to 30 percent in the 1990s, as the balance of payments on current account became positive. It related mostly to mining and petroleum, with about one third of the income payable abroad to

foreign investors. Government dissaving was typical in the early 1990s but was turned around in 1995-1997. The economic difficulties in 1998 are expected to lead to a modest deficit. Looking to the future, a tight fiscal stance is critical, even as further Government investment is needed in selected areas that would support instead of crowd out private investment. An important part of this challenge is to make taxation more effective. To reduce distortions and secure a broader revenue base, the Government is reforming the import tariff system and implementing a national value-added-tax, and at the same time eliminating provincial sales taxes. The tariff reform, begun in 1996 with reductions in various duties, aims to produce a simpler system — with a lower average rate and fewer exemptions. Import bans were or will be replaced by tariffs. The value-added-tax is now expected to become effective in July 1999. The Government is committed to further trade liberalization through its membership in the World Trade Organization and the Asia Pacific Economic Cooperation forum. The Government also plans to improve the direct tax system.

C. Social Dimensions of Development

16. The quality of life is low for many in rural areas and for underemployed urban dwellers. The HDI of 1995 places PNG at 129th out of 174 countries, last among PDMCs. Furthermore, there are severe and growing disparities among various social groups and between different areas of the country. Women are severely disadvantaged: they receive much less education and medical care, have fewer formal sector job opportunities, are often subjected to violence, and are grossly underrepresented in government. Female literacy rates are low and the maternal mortality rates high. Women account for only 4 percent of wage employment, mostly in lower-level positions. Although women are active in the informal sector, their access to credit is restricted. Both urban and rural women face heavy workloads. Women traditionally tend “gardens” (the local term for subsistence agriculture), and are involved in producing and processing over 80 percent of the country’s food. All these factors have resulted in the low status and poor condition of women.

17. While the average life expectancy has risen by 16 years since PNG achieved political independence in 1975, it is still only 56 years, the lowest in the Pacific. At independence, PNG had a strong primary health care system, but for the last decade the country has experienced deteriorating health services and an increasing incidence of disease; child and female health care has deteriorated most rapidly. After some improvements in the 1970s, the infant mortality rate declined during the 1980s. According to the most recent estimates, there appears to have been some improvement during the 1990s, to 77 per 1,000 live births in 1996. In recent years, however, the health sector has suffered from uneven and reduced recurrent budgets. With personnel costs very high, only a sustained human resource development effort in this area can ensure sufficient skilled staff and their effective deployment with adequate supervision and support. Greater attention must now be given to rural rather than urban health care, to preventive rather than curative services, and to basic rather than advanced treatment. This is essential if the outreach and quality of services is to be improved. Such considerations are at the heart of the *National Health Plan 1996-2000*, which was developed with Bank assistance and adopted in 1996.

18. Present problems in the education sector are evident in the low adult literacy and high primary school dropout rates, particularly in rural areas. In 1990, only 45 percent of adults were literate, compared with an average of 85 percent for other PDMCs. A quarter of the primary school-age population is not enrolled in school. While the numbers continuing to lower secondary education are increasing, enrollment in upper secondary school remains static. The

completion rate in primary schools is 59 percent, with many students dropping out after the first grade. Significant disparities in primary school enrollment exist between provinces, and the enrollment and retention rates for girls are lower than for boys, particularly at higher levels. In 1994, female enrollment was 45 percent at the elementary and primary levels, 40 percent in secondary, and only 25 percent in tertiary. Tertiary education consumes a disproportionate share of the education budget. Nonformal education programs have been constrained by lack of clear policy or well-defined institutional roles, as well as by insufficient funds and staff.

19. Looking at the future, the Government recently approved education reforms designed to restructure the system, extend the period of basic education, and relate primary education more closely to local culture and language. Lack of skilled staff, particularly in technical and vocational fields, represents a major development constraint, and poor social indicators persist despite high Government health and education expenditures relative to similar DMCs. Cost-effective delivery of Government services is made more difficult by low population density, poor communications, and inadequate infrastructure. Nevertheless, the cost of providing elementary and secondary education is three times that of other countries in the region. A very high share of financial resources is devoted to personnel costs. With severe resource constraints for supporting new projects, as well as for meeting operational expenses or maintenance needs of existing facilities, the quality of social services is deteriorating.

D. Need for Improving Governance

20. PNG has an inefficient, overly politicized public service. There are frequent changes in ministers and senior civil servants, and there are more ministries and agencies than required for efficient administration. Frequent changes in policies and inconsistent implementation of programs remain problems. There have been several efforts to reform the public sector since 1990, and there has been some progress but the problems remain very serious. Priorities include professionalizing the public service, strengthening management capability, introducing performance-based work systems and related principles of accountability, and improving incentives for productivity in a way that is consistent with the country's sociocultural characteristics and stage of development. It would also be appropriate and useful to increase consultation and collaboration with civil society organizations (church and other nongovernmental organizations) to extend the reach of basic human services.

21. Enforcing the law has always been difficult in PNG. The task ahead is made more difficult and complicated by the fact that it represents a society in which traditional tribal arrangements continue to dominate the culture of the people. Nevertheless, the nationwide rule of law and enforcement of well-defined rights are essential for economic activity to flourish. Poorly defined rights or inadequately enforced laws discourage risk taking, growth, and development. Most land is under customary ownership. Individuals' rights, even in terms of access to land, are not well established, and disputes are common; this is an important reason for the slow growth of the private sector outside mining. The pervasive law-and-order problem entails substantial economic and social costs: internal trade is restricted because of the threat of robbery; capital is underutilized because factories cannot work at night; and transaction costs increase substantially. The Government has found it difficult to overcome pervasive lawlessness.

22. The constitutional framework was amended by the 1995 Organic Law. The law was designed to overcome the major perceived shortcomings of former arrangements, in particular overcentralization of political power and the failure to deliver services to rural communities.

Under the new system, elected provincial governments were replaced by provincial assemblies largely consisting of national parliament members from the respective province. A wide range of programs, services, and projects is being devolved to provinces and districts. The abolition of a complete political tier is a major achievement, but even with substantial additional resources, the constitutional reforms will take years to implement. However, the reforms were introduced without adequate preparation, leaving both provincial and national administrations unsure of their functions and funding. There are many uncertainties over coordination, and insufficient attention has been paid to either cost or feasibility. Problems in defining lines of communication and areas of responsibility abound. National departments are responsible for planning, policy, and monitoring, but provinces and districts remain responsible for implementation and are entitled to guaranteed independent funding. The necessary major expansion in personnel and related skills at the local level may not be possible over the medium term, given the lack of infrastructure and funding. Thus, implementing the new arrangements is an immense challenge.

23. Improving financial management and accountability within the Government is also necessary. Financial autonomy and devolution are proceeding as the Organic Law reforms take place. However, these efforts are unlikely to succeed without substantial improvements and parallel reforms in the overall public sector institutional framework. There are serious weaknesses in financial accounts, supervision, and monitoring. Lack of performance benchmarks effectively precludes assessment of how to improve the efficiency of resource use. There is no mechanism for monitoring budget allocation and expenditure rationally.

E. The Government's Development Strategy

24. In the last five years several significant developments in PNG have influenced the Government's current development strategy.

- (i) The unprecedented financial and balance-of-payments crisis that emerged in 1994 and the related severe project implementation difficulties.
- (ii) The changes of Government in August 1994 and July 1997.
- (iii) The stabilization program introduced in October 1994 under IMF guidance.
- (iv) The Economic Recovery Program introduced in March 1995 with World Bank support.
- (v) The structural adjustment loans approved in mid-1995 by IMF, World Bank, Australia, and Japan.
- (vi) The constitutional reforms embodied in the Organic Law of 1995.
- (vii) The release of the MTDS in December 1996 and its reconfirmation by subsequent governments.
- (viii) The Bougainville accord of August 1997 and subsequent truce.

25. The 1996 MTDS reflects the Government's current planning framework and development thinking. It provides a frank assessment of the shortcomings of the Government, sets out key policy issues, delineates resources available, analyzes provincial implications, underscores the importance of keeping the economic reforms on track, and lays down principles for expenditure decisions. The Government's priorities are controlling recurrent expenditure, reviewing the role of Government, focusing Government expenditure on four key areas; ensuring that investment decisions fit development needs, and carrying through the constitutional reforms to ensure national/local balance. Recognizing the need to concentrate on the basics, the expenditure focus is to be on private sector support, primary and preventive

health care, primary education, and maintenance of infrastructure. The MTDS is the key to progress with the nation's development agenda: it provides a clear guide to the way forward and represents a major effort to confront PNG's governance problems. The major question is how to operationalize it in a reasonable time horizon and implement the programs effectively. Success will depend in part on corresponding changes in the way external assistance is provided and used and on strong aid coordination.

F. External Assistance and Coordination

26. Official development assistance is a major source of financing for PNG. In the 1980s, budget support from Australia accounted for more than a third of public expenditure. Although external assistance has been declining in recent years, it still accounts for about 7 percent of gross national product (GNP). Aid coordination on the part of the Government has been weak, though a series of organizational changes is under way to improve it. Since 1995, the aid coordination function has been handled by the Foreign Aid Management Division within the planning ministry, which is part of the finance/treasury ministry structure.

27. Australia through Australian Agency for International Development (AusAID) is the largest source of aid, currently providing about A\$320 million per year. There has been a dramatic shift in the composition of Australian assistance away from budget support; project aid now accounts for more than 60 percent of the total, and budget support is to be phased out by 2000. The shift calls for careful coordination to ensure sound use of external funds. Within Australian program, health, education and infrastructure are given high priority. Japan is the second largest bilateral source of assistance and has recently financed projects in education and transport (airports and roads). Japan also was a major contributor to the Structural Adjustment Program. Smaller bilateral sources include Germany, New Zealand, and Taipei, China. The World Bank chairs the Consultative Group, which last met in 1995. Given AusAID's dominant position, it has taken the lead in most aid coordination efforts through its Port Moresby office.

28. The World Bank's operational strategy in PNG emphasizes increased productivity, human resources development, and stronger public sector performance. In recent years, its main instrument for assistance to PNG has been structural adjustment loans supported by project loans, particularly in education and telecommunications. The United Nations agencies, notably UNDP, are focusing primarily on sustainable human development. IMF provides extensive technical assistance (TA) support on monetary, fiscal, and banking matters, and remains central to the macro stabilization efforts. The Bank is also a major source of aid (para. 30).

29. The need for effective aid coordination is obvious and recent efforts must be sustained. The World Bank, IMF, AusAID, and the Bank regularly exchange information on their respective operations. The Bank has been collaborating with AusAID and the World Bank on an ongoing project in the population sector¹ and is discussing cofinancing of a public sector management project with AusAID and UNDP, in addition to extensive discussion to ensure close coordination with the World Bank and IMF. There is scope for future cofinancing by the Bank, notably with AusAID and Japan, but the underlying objective of cofinancing would be to enhance impacts on the ground, rather than to merely increase the volume of funding.

¹ Loan No. 1225-PNG(SF): *Population and Family Planning*, for \$7.11 million, approved on 1 April 1993.

IV. REVIEW OF PAST ASSISTANCE AND CURRENT COUNTRY STRATEGY

A. Review of Past Assistance and Lessons Learned

30. The Bank has provided 47 loans totaling \$619.8 million to PNG for 36 projects since it joined the Bank in 1971. TA grants totaling \$26.0 million have been provided for 95 projects, of which 37 were for project preparation and 58 for advisory purposes. Lending in recent years has fluctuated: 1993, \$27.0 million; 1994, nil; 1995, \$0.5 million; 1996, nil; 1997, \$60 million; and 1998, \$14 million. Thus no new Bank loan was made for nearly four years, except for \$500,000 for Rabaul emergency rehabilitation.¹ In 1995, the net resources transfer turned negative; in 1996, the negative transfer rose to \$15 million, when disbursement totaled only \$11.9 million; in 1997, the negative transfer improved and was only \$1 million in volume; in 1998 the negative transfer again amounted to \$1 million. Seven projects involving nine loans are currently under implementation: of the six projects, four are rated "AAA". A further two projects (two loans) have been approved but are not yet effective.

31. Most projects are subjected to implementation delays. They have suffered from shortage of staffing, insufficient counterpart funds, difficulties arising from administrative procedures, delays in placement of project staff and recruitment of consultants, land acquisition difficulties, law-and-order problems, and inadequate interagency coordination. Contract awards and disbursements generally have been slow.

32. Of 18 projects post evaluated, six (two port, three road, and one water supply) were rated "generally successful"; eleven were rated "partly successful"; and one was "unsuccessful." Projects in the ports, highways, and water supply subsectors were more successful as the project scope tended to be less complex, and the executing agencies in most cases had the experience and capability to handle such projects and the external assistance associated with them. Less successful were projects in agriculture and development finance, which suffered long delays and cost overruns.

33. A number of important lessons (and good practices) relevant to the Bank's country strategy for PNG have been learned from Bank operations in PNG and other DMCs, as well as from other development agencies. Some of these lessons and good practices can be summarized as follows:

- (i) Quality-at-entry needs to be given greater emphasis and calls for increased beneficiary participation in project preparation and at other stages in the project cycle, careful assessment of the implementation capacity of the project implementation agencies, greater attention to suitability of new technology to the local environment, use of pilot schemes to test new concepts, the use of a process approach in project design and implementation where relevant, better market and financial analyses including the underlying risk assumptions and sustainability aspects, careful review of the policy environment, and the use of quantified performance indicators to identify and monitor impact.
- (ii) There should be greater selectivity of investments keeping in mind the need to link and sequence them appropriately to achieve planned results.

¹ Loan No. 1330- PNG: *Rabaul Emergency Program*, for 500,000, approved on 8 November 1994.

- (iii) The Bank should undertake a more proactive role during project implementation through regular policy dialogue and effective problem-solving support.
- (iv) There should be increased attention to and follow up on the timely withdrawal of loan funds and the availability of counterpart funds.
- (v) Continuous parallel efforts are needed to ensure effective aid coordination at both the project and sector level.
- (vi) The newly introduced project performance management system and the project performance report should be applied to all ongoing and newly approved projects.

34. Also relevant to the Bank's strategy is the role of the Bank in general, and the Bank's role in the Pacific in particular. The emerging role of the Bank as a broad-based development financier as compared with its earlier role as simply a project financier is particularly important. The major developments in the evolution of this role are summarized in Box 1 below.

Box 1: The Emerging Role of the Bank in the Pacific

The major developments in the Bank with implications for its PNG operations include the following:

- the release of the *Report of the Task Force on Project Quality* in November 1994
- the establishment of the Office of Pacific Operations in January 1995
- adoption of the Bank's *Medium-Term Strategic Framework, 1995-1998* in March 1995 and its update in February 1996
- the release of *Governance: Sound Development Management* in November 1995
- the introduction in March 1995 of the Country Assistance Plan as the primary vehicle for describing the rationale, framework, and program for each DMC
- the publication in January 1996 of the Bank's *Strategy for the Pacific*.
- issuance of the Bank's *Guidelines on Capacity Building* in 1996
- the Bank's involvement in aid coordination and its organization of Consultative Group Meetings (most recently, for Federated States of Micronesia, Kiribati and Republic of Marshall Islands in January 1998 and Cook Islands and Vanuatu in July 1997)

B. The Current Country Strategy

35. The Bank's current country strategy for PNG was adopted in 1994. The 1994 strategy is substantially sector focused, leaving macro- and cross-sector issues to the World Bank and IMF. The 1994 strategy focuses on stimulating the nonmining sectors so as to generate broad-based employment and income growth. Associated objectives are to upgrade delivery of basic health and education services, help correct the imbalance between rural and urban development, improve the lot of women in PNG, and preserve one of the world's most significant ecosystems. The strategy (summarized in Box 2) emphasizes employment generation, the role of the private sector, rural programs and services to disadvantaged areas, institutional strengthening, policy frameworks, and aid agency coordination. It envisages a

modest lending program over the medium term, with a focus on fewer sectors.

Box 2: The 1994 Operational Strategy

Objective

- Sustaining economic growth with Bank activities targeting employment generation

Medium-term priorities

- generating employment in nonmineral sectors
- fostering rural rather than urban development
- providing reliable social services
- protecting the environment

Strategic approaches

- fostering sector strategies for a supporting/enabling macroeconomic framework for increased competitiveness in nonmineral sectors
- supporting sectors with employment potential and income-generating opportunities such as agro-industry
- improving implementation capacity
- implementing an enabling environment for private sector-led industrial growth
- improving urban service efficiency
- identifying competitive agro-industries
- improving cost recovery
- upgrading environmental management through legislative and institutional strengthening

Sectors of interest

- a major role in agriculture, fisheries, health, and urban water supply
- a complementary role in education, industry, and transport
- supporting development management agencies, including central agencies

Lending level

- lending modestly in light of the limited absorptive capacity

Aid agency coordination

- consulting extensively with aid agencies

V. PROPOSED NEW COUNTRY STRATEGY

A. Defining the Bank's Role

36. Defining a future role for the Bank in PNG requires a careful analysis of the national development strategy and its appropriateness in the current situation, the Bank's strategic objectives, and the role being played by different external sources of assistance. The Government's long term development objectives, as articulated in the MTDS, are (i) development of a vibrant private sector; (ii) encouragement of more market-oriented rural production; (iii) better delivery of rural services; and (iv) as an overarching consideration, the maintenance of macroeconomic balances. Its medium-term objectives emphasize the need for improving macroeconomic management, tackling restraints to economic activity, controlling recurrent expenditure, leveling the playing field, and implementing the new division of responsibilities between the central and provincial governments and related arrangements

enacted in 1995. The Government will be more selective in its expenditures and will focus on priority areas: private sector development, primary and preventive health care, primary education, basic infrastructure, and reform of government down to the provincial level.

37. The MTDS, in its original presentation and its continuing reaffirmation by successive governments, represents a very significant advance in PNG. However, similar efforts in the past have stalled after initial steps. The continuing ownership by Government of the MTDS, the relatively successful implementation of broad reform measures despite difficult circumstances, and the efforts being made to implement the 1995 Organic Law reforms suggest that this time a government development strategy can succeed. This potential calls for the Bank and other aid sources to support the central agencies charged with managing the strategy and to provide them with the means and the resolve to maintain a steady course.

38. What are the implications for the Bank in terms of its own *Medium-Term Strategic Framework* and its *Strategy for the Pacific*? The *Framework* specifies five development objectives: promoting economic growth; reducing poverty; supporting human development, including population planning; improving the status of women; and protecting the environment. It redefines the mission of the Bank from financing of development projects to provision of an integrated package of development services, i.e., in which financing is linked with support for policy reforms, capacity building, and regional cooperation. Emphasis is being placed on mobilization of additional resources through cofinancing. Effective management of the project portfolio is being given more recognition than before, compared with processing of new loans and TA grants. The *Framework* calls for greater staff continuity in particular sectors, and requires staff to develop longer term perspectives and stronger partnerships with DMC counterparts.

39. Following from the *Framework*, in operational terms, the Bank regards governance as synonymous with sound development management. As such, governance is concerned directly with the management of the development process, involving both the public and the private sectors. It relates to the effectiveness with which development assistance is used, the impact of development programs and projects, and the absorptive capacity of the recipient. There are four basic elements to good governance: accountability, participation, predictability, and transparency. To enhance accountability, the Bank focuses on public sector management and reform, public financial management, and civil service reform. To foster participation, the Bank supports involvement of beneficiaries and affected groups in the development process, closer interface between public and private sectors, and decentralization of economic functions. To ensure predictability, the Bank emphasizes law and development, and an appropriate legal framework for private sector development. To promote transparency, the Bank focuses on disclosure of information. For PNG operations, the Bank's general concern with governance reinforces the efforts the Bank has been making to strengthen public sector management and support closer involvement of civil society organizations in the development process.

40. In its *Strategy for the Pacific*, the Bank emphasizes the priority of assisting PDMCs to create better policy, legislative and institutional environments that can lead to greater productivity, more private sector investment, and sustained growth. This objective and these aims, do accord well with the Bank's role in PNG.

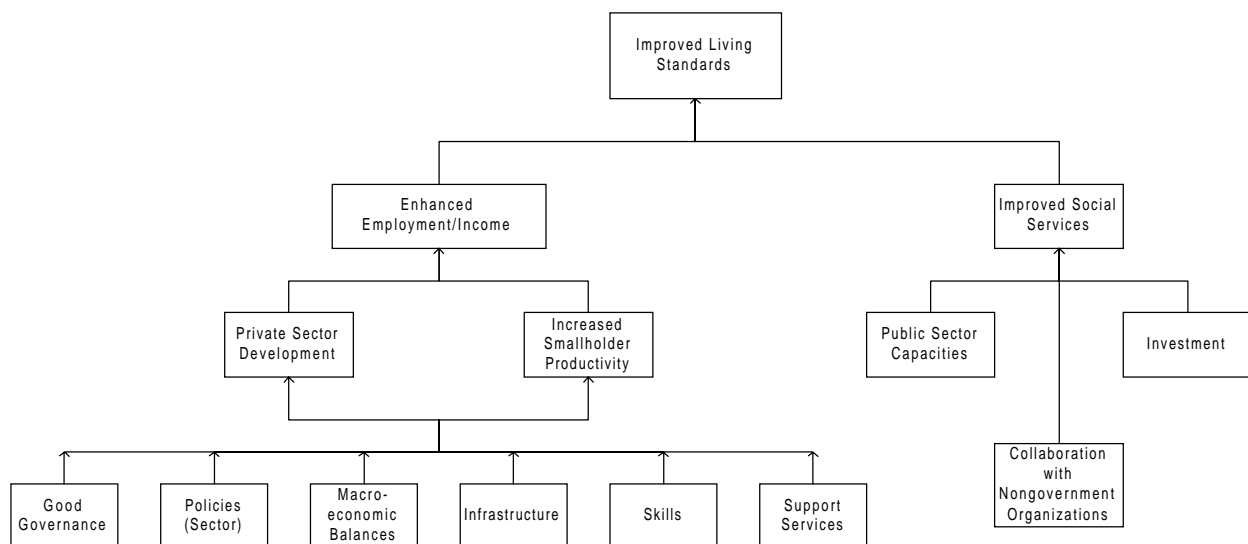
B. Overview

41. The overall development objective of the Government must continue to be improvement of the living standards of the people. Concretely, this means creating more jobs by encouraging greater private investment. This in turn will require greater private sector confidence in the Government and in its ability to manage the policy and service environment. Also, it will mean that the Government needs to urgently improve the construction and maintenance of infrastructure and provide for the wider availability of skills, since both infrastructure and skills are critical prerequisites to private investment.

42. Thus, better governance and public sector management should be the cornerstone of the Bank's strategy. The strategy must focus on upgrading the capacity of central agencies to manage the macroeconomic and policy environment more effectively; on improving sector policy and institutional capacity, especially in agriculture and fisheries; on simplifying the regulatory regime in general; and on financing judicious infrastructure investments, especially roads in rural areas.

43. Since 85 percent of the population depends on the quasi-subsistence agriculture sector, and as productivity in this sector remains abysmally low, policies and services to this sector must be the second most important priority of the Bank's strategy. The rich natural resources of PNG such as its arable land, marine life and forests provide a great opportunity for economic returns and improved living standards. However, numerous constraints remain to be addressed.

44. Improved social services are also key to raising living standards, and particularly so in the context of PNG's dismal social indicators. The emphasis needs to be on rural programs and service provision in less developed areas. Levels of education, the status of health of the general population, and the status of women in PNG are priorities. The Bank's strategic aim in PNG will therefore continue to be for improvement in the status of women through increased access to education and employment, reduction in family size, improved maternal health care, and better access to health facilities generally. As responsibility for implementation now lies with provinces and districts, developing their capacity and management skills becomes important.



C. Key Elements

1. Governance and Public Sector Management

45. Improved public sector management is a universally acknowledged critical need. The public sector absorbs an inordinate portion of national resources, with inadequate ensuing benefits. A targeted retrenchment exercise is required to reduce the wage bill and allow redeployment of labor. The Government has embarked on an ambitious retrenchment program. The capacities and performance of the bureaucracy at national, provincial, and local levels also need to be built up through better definition of mandates, improved focus on performance, and enhanced skills. A systematic, internally driven reform program is required, and the Government is firmly committed to instituting broad reforms. There is a clear need for the Bank working in close collaboration with the other external agencies to provide financial and policy advisory assistance. The 1999/2000 Public Sector Services Management Development Project will support the reform process and will complement the forthcoming structural adjustment program being negotiated between the Government and the World Bank and IMF.

46. Improved financial management and accountability systems are critical to enhancing the quality of economic and public sector management. The Government has developed a comprehensive financial management improvement program, that addresses both immediate needs (e.g., Year 2000 computer problems) and the longer term changes needed to support the decentralized decision making required under the new Organic Law, to support sufficient transparency and accountability, and to permit adequate performance monitoring for improved management and efficiency. The Bank is helping the Government to refine its financial management improvement program and will take the lead role in addressing the central-level requirements.

2. Agriculture and Natural Resources

47. **Agriculture.** Agriculture is PNG's dominant economic activity, providing livelihood for 85 percent of the people and accounting for a quarter of GDP, but it has been growing at less than 2 percent a year. The El Niño-related drought has had a devastating impact on rural incomes in 1997 and so far in 1998. Subsistence activities predominate. Income-generating opportunities are mostly in tree crops (coffee, cocoa, oil palm, coconut) suited to the climate. Smallholders account for 96 percent of agricultural output and two thirds of agricultural exports, and have proved remarkably resilient in the face of variable export prices. Thus, the informal agriculture sector is a mainstay of the economy. However, its strength is also its weakness as it is generally resistant to change. There is a widespread need to improve productivity and efficiency.

48. In the past, the Bank has had numerous operations in agriculture, though most were not completely successful. It has become increasingly obvious that government does not have a comparative advantage over the private sector in delivering support services for agriculture. In the light of this, and in keeping with the policy of supporting private sector development, the Bank's focus will be on strengthening the Government's institutional capacity to manage policies and to provide an enabling environment for the private sector. Government will also need to enhance its capacity to choose appropriate providers of support services, contract them, and supervise their delivery of services. This is a learning process, and the Bank is already helping the Government to test alternative approaches in this regard.

49. One key service to smallholders that demands particularly mention, given its central role in the transition from subsistence to cash-driven agricultural operations, is that of rural financial services. The Government's efforts in this regard through Government-owned and directed development banks has not been successful. Nongovernment organization (NGO) activity in this area is still nascent. There are very few successful examples of effective local credit cooperatives in the rural areas. The Bank will support expansion of private, NGO, and cooperative initiatives in this area, albeit cautiously and taking account of local absorptive and management capacities (para. 58).

50. **Fisheries.** Fisheries is an underexploited resource in terms of the benefits flowing to national interests. PNG's waters are rich with marine resources, but the sector accounts for only 1 percent of GDP. Rent from fisheries is derived mostly from distant-water license fees. Some \$300 million worth of tuna is estimated to be taken from PNG waters annually by foreign fleets, for which PNG receives around \$20 million in license fees. Subsistence or artisanal fishing is not substantial, and PNG does not have a tradition of fishing enterprise. Infrastructure, institutional, and policy constraints have, until recently, restricted the fishing industry's development, and there is little commercial fishing tradition and a lack of skilled labor. The Government has sought to facilitate development through fisheries stations providing ice, refrigeration, and marketing services, but these rely on subsidies. Deep-water fishing, primarily for tuna, is a major economic activity, but it is mainly in the hands of foreign companies. A key policy position of the MTDS is to bring onshore more of the value added in the sector, but political resolve is weak and resource management remains poor. A National Fisheries Authority was set up a few years ago with Bank encouragement, but it needs to address the issues of licensing, management, and surveillance. Developing the Authority into a strong, independent regulatory agency is now one of the Bank's strategic objectives. Support is envisaged for institutional strengthening of the National Fishing Authority and for infrastructure development in support of private sector involvement.

51. **Other natural resources.** Until the recent collapse in demand due to the Southeast Asian financial crisis, forestry was a major economic activity (contributing 5 percent of GDP in 1996). It has great potential for development. Trees cover three quarters of the land area, and there is a large supply of tropical hardwoods. Commercial logging is now a major industry, but there is little domestic processing of forest products; output is largely exported as logs. Logging practices and the rate of depletion are major concerns and have led to promulgation of a new logging code, an amended royalties system, and greater surveillance of logging activities and exports. In an unfortunate development, in July 1998 the Government reduced the tax on logs to ease the impact of the collapse of the timber market. Aid agencies, led by the World Bank, have encouraged the Government to be more resolute in its management of the resource. The Bank has no formal involvement in the sector. Its role will be to continue to support the World Bank's efforts to maintain a sound forestry management regime.

52. Mining comprises the extraction primarily of gold and copper. It has been a volatile performer, its GDP contribution varying annually over the last decade from 9 to 15 percent. Prospectivity is high. Total mining exports in 1997 accounted for about 34 percent of total exports. Petroleum production began only in 1991. Exports grew from nil in 1991 to nearly \$0.8 billion in 1996; unless further discoveries are made, production is expected to decline. Large reserves of gas have been found, and a pipeline to Australia is in advanced stages of negotiation; but a project for a liquefied gas plant has been postponed due to the Southeast Asian economic crisis. Given its critical contribution to revenue, its technical complexity, and

the environmental risks it poses, first-class regulation of mining is essential. The responsible agency is the Department Petroleum and Energy, which is capably managed but relies on continuing expatriate technical support. The World Bank is the main aid agency involved; the Bank's past involvement has been in providing support particularly in gas policy analysis. The new Country Operational Strategy does not envisage an active role for the Bank in this sector.

3. Infrastructure

53. The provision of effective transportation links within the country has long posed a fundamental development challenge because the population is scattered and the geography difficult. In fact PNG was a pioneer in commercial aviation. The development of a complete road, sea and air system cannot be contemplated, however, because of the unfavorable cost-benefit relationship. Inevitably, costs of construction and maintenance are high; as it is, fiscal constraints have meant inadequate provisions for maintenance, especially for roads, in recent years. Political constraints have resulted in investments in new, high profile or politically expedient facilities, but not necessarily those offering high return. Nevertheless, the Government has recently been reaffirming its intention to revitalize the road sector, emphasizing the importance of rehabilitating and upgrading the existing road network. The Bank should support the Government in this area. The Government also has identified the need to deregulate coastal shipping and air traffic, but it has been reluctant in the past to act decisively. Recent progress in advancing the long awaited privatization of Air Niugini, and in allowing alternative operators to resume even limited operations, however, is a welcome sign of economic rationalization. In the maritime transport sector, the scarcity of maintenance funds has raised serious safety concerns with regard to navigation aids, while inadequate harbor facilities hamper economic development, especially in fisheries. The infrastructure, capacity building, and policy analysis needs of the sector are extensive.

54. The Bank has traditionally been a major provider of funds and policy advice in both the roads and harbors sectors and will remain so. The investment emphasis will be primarily on rural roads and navigational aids, and on rehabilitation and maintenance. TA is being provided to introduce a nationwide road asset management system, which should assist the Government in prioritizing its investments in rehabilitation. Continued strengthening of institutional capacities of both national and provincial agencies will also be a priority. The Bank will closely coordinate its activities in this sector with other major sources of aid, including the World Bank, AusAID, and Japan to ensure complementarity and to avoid overlap.

4. Social Infrastructure

55. **Health and Population.** Health indicators are poor and not improving. In recent years, the health sector has suffered from uneven and reduced budgets. Personnel costs are high, and only a sustained human resource development effort can ensure sufficient skilled staff, deployed appropriately, and with adequate supervision and support. The introduction of the 1995 Organic Law, which devolved responsibility for health care delivery to provincial and local governments, has exacerbated the immediate challenges. Given the problems in the sector, the need for continuing assistance is clear. The Government's new health policy and National Health Plan, which were developed with Bank assistance, emphasize the need for efficiency, rural rather than urban health care, preventive rather than curative services, and basic rather than advanced care. The Government is committed to improving health care as a key element in the MTDS with a view to improving health indicators especially for women. NGOs, notably the churches, have long played a key role in the delivery of health services, particularly in the

rural areas, and their strengthening is a central element of the Health Plan. The Bank has played a key role in refining and supporting the Government's efforts to improve population and other reproductive health services and will continue to support the subsector, both through policy dialogue and through direct support. More generally, the Bank is the major agency operating in the health sector and must continue to support it. Through a 1997 program loan,¹ the Bank is providing extensive and tangible benefits to the nation. The growing AusAID involvement in the sector is a welcome development; close collaboration between the two agencies is being maintained.

56. **Education.** Educational achievement in PNG is inadequate and hampers economic and social development. A quarter of the primary school-age population is not enrolled, and while the numbers continuing to lower secondary school are growing, enrolment in upper secondary school is static. Although tertiary education absorbs a disproportionate amount of the education budget, the volume and quality of tertiary education graduates is inadequate for the needs of the modern economy. The Government has recently approved major education reforms designed to restructure the system, extend the period of basic education, and relate preprimary education more closely to local culture and language through expansion of an innovative system of village-based local language schools. Despite these developments, lack of skilled staff particularly in technical and vocational fields continues to constrain development. NGOs, notably the churches, will continue to play a key role in education. AusAID is increasingly taking the lead in the critical area of primary education. Through labor market analysis and skills development the Bank is providing effective sector support for vocational education, with priority to improving women's educational achievement. The Bank's focus in its new strategy will remain skills development through vocational and technical education.

57. **Water Supply.** The provision of water, despite normally relatively abundant rainfall, is generally inadequate. Whereas most urban dwellers have access to piped water, service is uneven. Only 20 percent of the rural majority have access to supply. The severe effects of the 1997 drought have raised the profile of the sector. Port Moresby's system is expensive and inefficient; however, the recent corporatization of the city's system is enabling promising investment and service efficiency improvements. The Waterboard, which handles water supply for towns outside Port Moresby, is effective and generally capable, but is hampered by diseconomies of scale; only Port Moresby and Lae have populations large enough to support marginally profitable operations at presently socially acceptable rates, and Port Moresby was recently separated from the Waterboard. There will be continuing need for financial support. Moreover, growing urbanization throughout the country requires the provision of adequate systems to more towns. The Bank has traditionally taken a lead role in water supply. The 1995 sector study, financed by the Bank, provides guidance for the future. Given the link between water supply and health, and the Bank's sector expertise, it should continue its involvement.

5. Other Sectors

58. **Financial Services.** Financial services are critical to economic and social development. In PNG, people in the rural areas and poor people generally are woefully underserved. With little or no access to modern savings and transactions mechanisms, the poor in particular are forced to rely on cash holdings and transactions, with significant adverse consequences given the serious law and order problem. On the funding side, limited access to credit has been one

¹ Loan No. 1516/17-PNG: *Health Sector Development Program*, for \$50 million, approved on 20 March 1997.

of the impediments to sustainable growth. Past efforts by the Bank and other aid agencies to address the need by direct assistance to formal development finance institutions have been relatively unsuccessful; the lessons, in PNG as in other countries, is the need to emphasize the self-sustainability of such efforts and therefore the profitability of operations. However, to complement the modern financial services sector catering to the modern formal sector, a number of efforts to develop microcredit schemes have arisen. Although hampered by a history of poorly administered organizations (and therefore an inadequate tradition of repayment of loans to institutions), the new microcredit initiatives are promising. The Bank can assist in reviewing the options in the PNG context. The emphasis has to be on strong management with a firm focus on sustainability, emphasizing efficient provision of savings as well as credit services.

59. **Energy.** The power supply network reaches less than a fifth of the population, and very few people in rural areas. The Electricity Commission of PNG, the commercial statutory authority responsible for power supply, is gradually expanding its distribution system, but is impeded by both geography and financial limitations. It is a generally capable agency, but its viability is constrained by the Government's setting of its tariff and its development program. The Bank's past influence in reforming sector policies has been relatively limited. The new Country Operational Strategy does not envisage a role for the Bank in this sector.

60. **Manufacturing.** Manufacturing accounts for only about 10 percent of GDP, with most needs for manufactured goods met by imports. Food processing and beverages comprise about half of the total value added. Notwithstanding capital-intensive methods of production, output per worker has hardly improved over the last decade. Inadequate skilled labor, lack of capital, and limited know-how remain severe impediments to indigenous private sector development. Needed are predictable public policy and an enabling development framework, rather than direct interventions by Government. Although in the past the Bank has supported the Industrial Centres Development Corporation and the Small Business Development Corporation, the Bank is now encouraging Government to privatize them and to generally wind down direct Government intervention in the sector.

61. **Construction.** Output varies substantially each year, much influenced by large individual projects. With greater attention to public investment in roads and health and education facilities, substantial sector expansion is possible. The construction sector will do best if there is a stable economic and fiscal framework, with transparent tendering arrangements for public sector projects. The latter area offers scope for aid agency encouragement and support; no other direct involvement is envisaged.

D. Country Focus and Selectivity for Results

62. Aid agencies play a critical role in PNG, providing finance and, even more important, advocating sound and consistent public policies. Australia remains by far the most important source of aid for PNG. With the progressive conversion of Australian aid from budgetary support to project and program support, effective aid agency coordination is important to ensure that funds are used within sound sector policy frameworks. The availability of grants from AusAID presents a special challenge for identifying bankable projects. However, the Government places importance on the continuing involvement of aid sources other than Australia, in part to provide suitable range and depth of policy advice. In the past, the Bank was the largest source of finance after Australia, and a valued policy development partner. In recent years, although the Bank's cessation of lending reduced its relative importance as a source of funds, the Bank

maintained a special role in sector analysis, planning, and coordination. The resumption of significant lending in 1997 boosted again the Bank's leverage and importance. If the Bank is to retain appropriate influence and relevance, it is vital that a critical mass of involvement be maintained, both in terms of the number of activities and of their aggregate magnitude, while maintaining adequate strategic and sector focus. Structural adjustment is a key requirement, and the Bank needs to continue to support the overall reform process.

63. Whatever the priorities, the operational strategy needs to be founded on the Bank's implementation experience. Technical support for the departments of treasury and planning and of personnel management should result in better economic, financial and human resource management, but in itself will not improve project implementation capacity. Implementation requires a very significant hands-on effort by the Bank; the provision of a local presence in Port Moresby, staffed by two long term consultants with clear terms of reference and performance indicators, could be of value. This option is being seriously examined as a part of the Bank's dialogue with the Government to improve portfolio performance. More generally, project design has to focus on feasibility, based on a realistic assessment of the implementation capacity. Local ownership and beneficiary consultation need to be given prominence in project development, and project implementation support will remain essential to good outcomes.

64. Overall, adoption of the new strategy tilts the Bank's endeavors sharply toward the governance aspects of development, and implies a somewhat modest view of what the Bank can achieve in PNG. A mixture of caution and innovation is required. While maintaining sufficient spread, the diversity of projects and their complexity of design should be kept to a minimum. Well-focused interventions, designed with the active participation of both the implementors and beneficiaries and intensively supervised, are the ones most likely to succeed. In the medium term, PNG needs advice even more than it needs financial resources. However, to have a lasting policy impact requires a critical minimum volume of activities. A reasonable expectation may be 2-3 loan projects and about 5-6 TAs a year between 1998 and 2001. This will not, however, be a target: actual lending and TA support will be based on a number of relevant factors including Government commitment, the nature of the proposals for assistance, performance, and aid coordination.

COUNTRY PERFORMANCE INDICATORS

Items	1994	1995	1996	1997	1998
A. Economic Indicators					
Income and Growth					
GDP per Capita (US\$, current)	1,376	1,214	1,266	1138	882
GDP Growth (% in constant prices)	5.2	(3.6)	3.5	(4.6)	2.4
Agriculture	4.5	2.2	6.1	(4.2)	(6.4)
Industry	1.4	(9.7)	3.3	(14.2)	18.9
Services	9.4	(1.5)	(1.2)	(6.1)	(4.9)
Saving and Investment (% of GDP)					
Gross Domestic Investment	—	19.4	27.9	27.1	30.3
Gross Domestic Saving	—	28.9	32.1	23.0	28.3
Money and Inflation					
Consumer Prices (end year)	2.9	17.3	11.6	3.9	21.8
Broad Money (M2) (annual growth)	(1.3)	13.7	30.7	7.7	1.9
Government Finance (% of GDP)					
Revenue	23.3	23.5	25.0	27.7	24.3
Expenditure	29.0	27.9	27.0	32.2	32.0
Overall Surplus/Deficit (-)	(2.8)	(0.5)	0.5	0.1	(1.6)
Balance of Payments					
Merchandise Trade Balance (% of GDP)	24.3	28.5	19.4	13.9	22.9
Current Account Balance (% of GDP)	10.4	13.6	5.9	(2.4)	(1.1)
Merchandise Export (\$) Growth (annual percent change)					
	2.5	0.4	(5.6)	(15.1)	7.6
Merchandise Import (\$) Growth (annual percent change)					
	17.2	(4.5)	19.3	(2.0)	(6.2)
External Payments Indicators					
International Reserves (\$) (end of period)	96.0	268.0	650.0	355.0	195.0
Months of imports	1.0	2.6	5.3	3.5	2.0
External Debt Service (% of exports of goods & services)	30.4	20.8	17.5		
External Debt (% of GDP)	52.0	49.0	44.0		
GDP (current prices, K million)	5,530.8	6,308.6	6,914.0	6,824.3	7,713.6
Exchange Rate (local currency per US\$; period average)	1.01	1.29	1.32	1.43	2.07
Items	1985	1990	Latest Year		
B. Population Indicators					
Total Population (million)	3.4	3.7	4.3	(1995)	
Annual Population Growth Rate (% change)	1.80	2.10	2.30	(1995)	
C. Social Indicators					
Total Fertility Rate (births per woman)	5.4	5.4	4.8	(1996)	
Maternal Mortality Rate (per hundred thousand live births)	900	900	370	(1996)	
Infant Mortality Rate (below 1 year; per thousand live births)	86	73	77	(1996)	
Life Expectancy at Birth (years)					
Female	54	57	52	(1993)	
Male	51	55	51	(1993)	
Adult Literacy (%)	24/39	37/61			
Primary School Enrollment (% of school age population)					
Female	63/73	65/76	66/78	(1993)	
Secondary School Enrollment (% of school age population)					
Female	9/16	10/15	10/15	(1987-93)	
Child Malnutrition (% of under age 5)					
Population Below Poverty Line (%)	—	—	73.0	(1980-90)	
Income Ratio of Highest 20% to Lowest 20%					
Population with Access to Safe Water (%)	20	22	31	(1994-95)	
Population with Access to Sanitation (%)	56	57	57	(1988-91)	
Public Education Expenditure as % of GNP	—	—	2.6	(1993)	
Public Health Expenditure as % of GDP	—	—	2.3	(1994)	
Human Development Index/Rank	—	—	0.507/129	(1995)	
D. Environmental Indicators					
Per Capita Crop Land (ha)	—	0.13	0.13	(1992)	
Extent of Forest and Woodland (% of total land area)	85	85	84		
National Protected Areas (%)	—	—	—		
Per Capita Commercial Energy Consumption (kg of oil equivalent)	—	204	193	(1992)	
Per Capita Carbon Dioxide Emissions (tons)	—	—	—		

GDP=Gross Domestic Product, Kg=kilogram, ha=hectare

Source: United Nations Development Programme, Human Development Report 1998; National Statistical Office; Department of Treasury and Planning.