International Bank for Reconstruction and Development 87509
International Development Association
International Finance Corporation
Multilateral Investment Guarantee Agency
FOR OFFICIAL USE ONLY

CONFIDENTIAL

EDS99-340
December 8, 1999
04:49:24 PM

Statement by Murilo Portugal
Date of Meeting: December 9, 1999

Papua New Guinea Country Assistance Strategy

1. **CAS Objectives.** We welcome the discussion of this CAS whose primary objective is to assist the Government of Papua New Guinea in "strengthening the foundations for a capable state that can be responsive to its people by addressing human and economic development challenges in an accountable manner." We agree with the document regarding the Bank pursuing the CAS's objectives a) by supporting improvements in the governance framework for sustainable development and b) by assisting at creating sustainable rural development. We concur with staff assessments, and with OED recommendations, regarding the Bank's engagements in these areas.

2. **Macroeconomic Activities and Adjustment Lending.** A recent CAS update provides us with a set of positive developments in the policy front, the most important being the control and re-direction of government expenditures. The GOPNG also increased excise and selective taxes. Both measures are expected to contribute to generate a fiscal surplus in the second part of FY99. After these moves the Government of Australia, PNG's largest donor, has committed to provide bridge financing, conditional upon an IMF program. The recent economic measures have led to the stabilization of the exchange rates and the price levels. Given the recent progress, we consider that the Bank should continue its efforts to define an adjustment lending operation, conditioned to progress in the dialogue between the GOPNG with the IMF, and eventually move into the base case scenario.

3. **Selectivity and Portfolio Performance.** It is clear from the portfolio performance that the Bank would have to become more selective on its interventions. The CAS document presents management's and OED's views on the matter. We encourage the Bank's management to be more selective and to focus its interventions where it can have the most impact. Furthermore, the Bank should pay close attention to problems surfacing across all projects (land issues, for example) and ideally devise ways to deal with them as a general

problems as well as a project specific problems. In this respect we suggest that the PNG team engages in a permanent dialogue, and communicate experiences in successful implementations within the Bank and across institutions within the nation.

Another issue we would like to raise has to do with old, non-performing, loans. The Bank management should work diligently with the new Authorities at revising the portfolio and when appropriate re-designing or even cancelling projects that have become irrelevant or obsolete. It would only be fair for a country that considers IBRD resources to be expensive to realize that they have choices when it comes to non-performing loans.

4. **Capacity Building.** Low implementation capacity has been identified as a major problem. While other donors have programs on capacity building, the Bank should think about including capacity building components within all the operations it finances. The introduction of the Organic Law on Provincial Governments that intends to devolve power from the Central Government would need a strong capacity at the provincial level to be successful. The Bank should include issues of capacity building on its policy advice for the reform of the Provincial Government's Law.

5. **Non-Lending Services.** The Bank should continue its work in non-lending activities to support the performance of its program and to strengthen the policy dialogue with the GOPNG. We are in agreement with OED's recommendation that calls for the increase in non-lending services. Past Bank work on this area has proven effective and positioned the Bank to start an effective dialogue with the new authorities an to interact with the donor community.

6. **Agriculture Sector Reform.** Given the duality of the PNG economy, and the poor socioeconomic indicators found in rural areas, it is imperative that the Bank put emphasis on its interventions in the agriculture sector. The Bank should work at devising ways to address issues affecting rural development, among them fragmentation, unfavorable marketing arrangements, poor infrastructure, issues of land ownership. The Bank's interventions should secure project ownership before activities are launched. In addition to the reform and infrastructure components to be delivered by the Bank, it is necessary that capacity for processing perishable goods be mobilized in the form of private sector investments.

7. **Strong Local Presence.** We welcome the Bank's renewed interest in having a more active presence in the country. The establishment of a liaison office in PNG in 1996 have enhanced policy dialogue with the Government, and have strengthen capacity of the Bank to react to changes in the environment. A move towards further increasing the presence in Port Moresby is likely to enhance the capacity of the Bank to improve its portfolio and the policy dialogue with the Government. This is why we encourage the Bank to give due attention to the pros and cons of staffing a resident Mission in PNG.

8. **PSD and Support to Privatization.** The GOPNG has renovated its interest in the privatization of public services. In addition to this the Bank has identified the need for strengthening the financial sector, both its regulatory aspects as well as private sector

investments. The Bank Group can proactively assist the GOPNG in articulating a privatization strategy that could be undertaken with the assistance of both IFC and MIGA. IFC should also continue developing operations in segments of the economy that usually have no access to credit.