REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN AN AMOUNT EQUIVALENT TO US$9.7 MILLION

TO THE

INDEPENDENT STATE OF PAPUA NEW GUINEA

FOR A

WEST SEPIK PROVINCIAL DEVELOPMENT PROJECT

October 11, 1984
CURRENCY EQUIVALENTS

Calendar Year 1983 April 1984

<table>
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<th>Currency Unit</th>
<th>Kina (K)</th>
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WEIGHTS AND MEASURES

1 kilogram (kg) = 2.2046 pounds (lbs)
1 metric ton (ton) = 2,204.6 pounds (lbs)
= 1.1023 short tons (2,000 lbs)
= 0.9842 long tons (2,240 lbs)
1 kilometer (km) = 0.6214 miles
1 square kilometer (sq km) = 100 ha = 0.3861 square miles
1 hectare (ha) = 2.4711 acres

GOVERNMENT OF PAPUA NEW GUINEA
FISCAL YEAR

January 1 - December 31

GLOSSARY OF ABBREVIATIONS

BCL - Bougainville Copper, Ltd.
DPI - Division of Primary Industry (Agriculture)
ICO - International Coffee Organization
LDP - Less Developed Provinces
MTDS - Medium-Term Development Strategy
NDS - National Development Strategy
NPO - National Planning Office
NPEP - National Public Expenditure Plan
PNG - Papua New Guinea
PAPUA NEW GUINEA

WEST SEPIK PROVINCIAL DEVELOPMENT PROJECT

Loan and Project Summary

Borrower: Papua New Guinea (PNG)

Beneficiary: West Sepik Provincial Government

Amount: US$9.7 million (including capitalized front-end fee)

Terms: The loan would be for a term of 20 years, including 5 years of grace, at the standard variable interest rate.

Project Description: The proposed project would constitute the first five-year phase of a long-term effort to promote social and economic development in West Sepik, one of the poorest provinces in Papua New Guinea. The objective of the project is to strengthen the human, agricultural, institutional and physical resource base to enable directly-productive and market-oriented activities to be carried out now and in the future. Specifically, the project includes: (a) agricultural development activities comprising subsistence agriculture, cash crops including tree crops and vegetables, strengthening of support services and special studies to investigate and prepare future agricultural projects; (b) infrastructure development through road upgrading and rehabilitation, airstrip upgrading and wharf construction; (c) health and nutrition services development including nutrition research in the Lumi district, a school nutrition program, and training and supervision of primary health care workers; (d) education and training improvement comprising establishment of central community schools, boarding facilities, an in-service training center, and vocational training; and (e) institution building through upgrading of the provincial management, financial and staff development functions.

Benefits: About 90% of the 114,000 people living in the West Sepik Province would benefit from the long-term development program being initiated with this project. The benefits expected are: some family cash income, more balanced diets, better health, more schools and improved government services.
The main project risks are: (a) potential management and coordination problems arising from the project's relative complexity and remote location; and (b) poor participant response and the possibility of introducing culturally inappropriate practices. The risk of low response has been reduced by proposing modest modifications in the farming system, requiring low but adequate levels of skills and technology, and directing the project to areas where acceptance is likely to be high. Also, the duties of the monitoring and evaluation officer would include assessment of the response of participants to project activities and recommendation of appropriate modifications. To avoid any recruitment risk, the appointment of key staff is being done before project initiation. A Project Coordinator would be appointed to ensure coordination of the various project components.
## Estimated Cost:

<table>
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<tr>
<th></th>
<th>Local (US$ million)</th>
<th>Foreign (US$ million)</th>
<th>Total (US$ million)</th>
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<td>3.8</td>
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<tr>
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## Financing Plan:

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<td>Government</td>
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<td>-</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>8.20</strong></td>
<td><strong>8.42</strong></td>
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## Estimated Disbursements:

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<td>5.4</td>
<td>6.9</td>
<td>8.6</td>
<td>9.7</td>
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## Rate of Return:

Given the nature of the project, no overall rate of return has been calculated.

## Staff Appraisal Report:


## Map:

IBRD 17935

/a Including US$0.4 million for taxes and duties.
1. I submit the following report and recommendation on a proposed loan to the Independent State of Papua New Guinea for the equivalent of US$9.7 million, including the capitalized front-end fee, to help finance a West Sepik Provincial Development Project. The loan will have a term of 20 years, including five years of grace, at the standard variable rate.

PART I - THE ECONOMY

2. The last economic report, "Papua New Guinea: Development Policies and Prospects for the 1980s" (Report No. 3544a-PNG), was distributed to the Executive Directors in December 1981. This section reflects the findings of subsequent economic missions, and draws upon various country documents and recent IMF work on Papua New Guinea (PNG).

Structure of the Economy

3. Papua New Guinea is a land of rugged and sometimes impenetrable mountains, rich valleys and coastal plains, and numerous widely-scattered islands. It is favored with abundant rainfall, considerable mineral resources, and forestry and fishery resources of good commercial potential. The capital city, Port Moresby, with a population of about 134,000, is an enclave, with no road links to other parts of the country, and is the largest urban settlement in what remains an overwhelmingly rural society. Per capita GNP in 1983 is estimated at US$800. Despite its relatively high per capita income, however, Papua New Guinea remains an exceedingly poor country, where the majority of the multi-tribal society lives at a level at, or scarcely above, subsistence. The figures for monetary incomes are biased upwards by the inclusion of the incomes of expatriates and the value-added of enclave enterprises. The population as of mid-1983 was about 3.1 million, spread among 19 provinces (with populations ranging from 26,000 to 310,000), each with its own assembly and separate administrative apparatus.

4. The modern sector of the economy is dominated by the enclave sector, particularly copper mining and associated investments, and by the public sector. In the late 1970s copper, through Bougainville Copper, Ltd. (BCL), accounted for about 15% of GDP; by 1982 this had fallen to 7.8% as prices declined sharply and as the more productive veins were being exhausted. However, new investments in 1982, together with some improvement in copper and gold prices, brought BCL's value-added to 10.5% of GDP in 1983. With declining ore grades and prices, performance is likely to be considerably less good in 1984. Construction of the new Ok Tedi mine generated about 12% of GDP in 1983 (largely through capital investments which represented roughly 45% of
PNG's total investments), thus more than compensating for the decline in BCL; 
it is also the increase in investments in Ok Tedi which was the major contri-
butor to economic growth in 1983. Beginning in June 1984 as gold production 
came onstream, Ok Tedi's contributions to value-added in the mining sector 
should begin to grow to a point where, together with new copper production, 
they reach about 12.5% of GDP in 1987. Non-mining industry accounts for 
roughly 9%, together with new copper production of GDP - low for a country of 
PNG's per capita income - while government services, heavily dominated by 
expatriates in the upper ranks, account for about one-quarter of the total. 
Strikingly, the primary sector, which employs about 85% of the labor force, 
only contributes 35% of GDP, a large portion of which is in the subsistence 
sector.

5. PNG's growth record has been quite mixed; for the decade of the 
1970s as a whole, real per capita growth was negative at -0.2% per annum 
despite the strong growth in copper exports. The latter half of the decade 
was even worse in per capita income terms (-0.5% per annum), despite some good 
years, particularly 1978-79. The terms of trade effects on GDP during the 
seventies were roughly neutral with respect to their impact on economic activity. Since 1980, real GDP has stagnated - implying a decline in real per 
capita income of about 2.4% through 1982. GDP growth for 1983 is estimated at 
2.0%, lower than the 2.3% population growth, but still an improvement over the 
earlier years. In these years the deterioration in the terms of trade did 
bite as the Government cut back services and capital investments and restrict-
ed the growth in the money supply to protect the balance of payments and the 
value of the Kina. With the unfavorable terms of trade effect, gross domestic 
income has fallen 20% (as compared with a nearly constant GDP) since 1979. On 
the other hand, growth of GDP is expected by the Government to average 4.5% 
between 1983 and 1987 (2.3% per capita), largely because of investments 
(direct and induced) and exports associated with the Ok Tedi mine. While 
growth rates may in fact improve somewhat as a result of the impact of 
Ok Tedi, continued poor agricultural performance, together with a cautious 
demand management policy, may finally result in the weak growth performance 
which characterized the decade of the 1970s.

6. As suggested above, the economy has been severely affected by the 
sharp drop in commodity prices that began in 1980. The price of copper dropped 
to its lowest level in 30 years, leading to a fall of K 42 million in 
budgetary resources derived from BCL between 1981 and 1982, and a further fall 
of K 19 million in 1983. The prices of agricultural export commodities have 
fallen by half since the late 1970s, although some improvement took place in 
1983. Lower export receipts depressed economic activity and reduced imports 
through 1982. In 1983, however, export receipts jumped by over 20%, while 
imports rose by 10% (mainly because of capital goods imports associated with 
Ok Tedi). Even then, however, exports are not expected to regain their 1979 
level until 1984, when gold began to be exported from the Ok Tedi mine. After 
taking account of the budget support grant from Australia (para. 19), the cur-
cent account deficit in 1982 was US$480 million, or 19.7% of GDP. This 
 improved to US$393 million in 1983, roughly equal to 16.4% of GDP. With other 
official and private capital flows as projected, the expected deficits will be 
covered without undue strain on reserves or on the debt-service ratio which 
was about 7.6% in 1983 and which is projected to fall somewhat in 1984. The
role of the Australian grant is significant in supporting higher levels of
government expenditures, GDP and imports than would otherwise be possible with
PNG's own resources.

7. In view of the fact that most of its export prices have been subject
to fluctuations, often sharp, the Government has taken a number of measures to
reduce the impact of these fluctuations on the economy and on the producers of
export crops. The Mineral Resources Stabilization Fund was designed to smooth
the impact of fluctuating copper prices on the budget, and stabilization funds
for coffee, cocoa and copra were designed to reduce the oscillations in prices
received by the producers. While these funds for agricultural products have
had the effect of dampening price-induced supply responses, they have contrib-
uted to the stability of the economy. For the most part they have shielded
producers from income declines and, with the exception of the copra fund,
their total resources are still relatively healthy as a result of substantial
levies accumulating in the late 1970s, when export prices were at historical
hights.

8. Following the establishment, prior to independence from Australia in
1975, of the Minimum Wage Boards between 1972 and 1976, real minimum wages
more than doubled in that period, giving PNG the highest wage costs of the
developing countries in the region. The urban minimum wage is currently equal
to nearly US$50 per week. Since independence, two three-year wage agreements
limited the rise of both public and private sector wages to that of the
consumer price index, subject to an annual maximum of 11.75%, thus ending the
sharp upward spiral of real wages that occurred during 1972-76. The wage
situation was accompanied by a "hard kina" policy causing the kina to appre-
ciate vis-a-vis PNG's major trading partners, which had the effect of dampen-
ing wage demands and keeping down prices of imports (40% of GDP by value).
This tended to offset somewhat imported inflation, so that the increase in
domestic price levels has averaged about 7.5% between 1977 and end-1982 as
compared with the international inflation index of 8.7%. Price levels over
1981-82 have moderated further to about 6.2%, which is probably as much a
reflection of the fall in business activity as it is of the moderation of
import prices. Prices in 1983 rose 8.5% with the devaluation of the kina
along with that of the Australian dollar in March 1983.

9. Increasingly concerned about the negative impact of high real wages
on the economy, the Government sought to impose a three-year freeze on urban
wages. The Minimum Wage Board rejected this stringent approach proposed by
the Government, deciding in favor of full indexation of the first five
percentage point change in the CPI, but with no further indexation. This
resulted in an approximate 3.5% erosion in real wages in 1983. The kina had
been allowed to appreciate until March 1983, when parity with the Australian
dollar was maintained at the time of its 10% devaluation, thus resulting in a
5.5% devaluation of the kina against its basket of currencies. The Government
is gradually reducing the real value of the kina, both through wage restraint
and - although not officially - through a very gradual downward float.

10. The Government has also responded to its straitened circumstances by
raising taxes in 1982 and 1983 in face of a deflationary situation, lowering
government expenditure by 10% in the latter year, and laying-off some 2,000
employees, about 4% of the total public service. Preliminary estimates indicate that the public deficit in 1983 was K 84.2 million, K 28 million under budget and the lowest deficit since 1980. This reflected a 2% real cut in total spending, and amounted to about 4% of estimated GDP, down from 6.2% in 1982.11 As was the case in 1982, little of this was financed by borrowing from the Central Bank. Borrowings from foreign commercial banks are estimated at about US$60 million in 1983, as compared with US$100 million in 1982. The 1984 budget estimate projects a deficit of K 83 million. No commercial foreign borrowings by the Government are expected for this year.

Development Strategy and Planning

11. In the post-independence period a concerted effort was made to define a set of economic and social priorities according to which government resources were to be allocated. However, as noted above, more weight had been given to developing a decision-making process for the budgeting of government resources than to the preparation and implementation of a comprehensive development plan. While a National Development Strategy was defined and strategic objectives identified as the basis for resource allocation, these had not represented a basis for a growth-oriented development strategy as such.

12. The National Development Strategy (NDS) placed a high priority on improving the quality of life for the rural population, focusing on rural development in the less developed areas of the country. While this focus remains, it is now to be set within the context of a growth-oriented strategy. This objective recognizes not only the agricultural potential of the country, but also the fact that for quite a few generations the agricultural sector will be the main source of employment.

13. For several years, PNG has had a four-year plan known as the National Public Expenditure Plan (NPEP), which institutionalized the NDS. This plan focussed on capital expenditures for the first year of the (rolling) plan, concentrating more on the recurrent costs of capital projects and the ability of the budget to support them. (This feature is rare in developing country planning, and is expected to be retained under the new planning system being worked out.) Now, reflecting the Bank’s suggestions underlining the need for the country to develop a longer-term view about where it was going, and how it was going to get there, both in the various sectors and overall,2/ the Government has decided to adopt a Five Year Plan in late 1985.

14. The Government’s current approach to carrying out its intentions is to develop a Medium-Term Development Strategy (MTDS). This would: (a) review the current economic situation and forecast how it could be expected to develop over the next five years, working out an appropriate financing strategy; (b) involve the preparation of medium-term sectoral strategies focussing on

1/ This figure takes Australian budget support into account.

...physical targets; and (c) work out the division of available resources among the various sectors and agencies. In conjunction with the MTDS, a Medium-Term Development Program, intended to be a five-year indicative plan, will be drawn up. This will follow sectoral objectives and resource allocations for each Department as agreed by the Cabinet.

**Development Issues**

15. The major factors which will affect the Government's ability to promote economic development are the decentralization of government activities, the ability to achieve self-reliance in both staffing and financial resources, and the willingness to take new initiatives in policy formulation and investment in the agricultural sector.

16. Decentralization, which gives the provinces greater control over spending, reduces the national Government's ability to pursue its priorities, while inadequate staffing limits the capabilities of the provinces to develop their own plans. PNG's topography has made it a country of scattered tribes and a degree of political decentralization was a necessary response to local pressures. Provincial governments are gradually assuming regulatory and financial control in some areas and will share power with the National Government in others. Provincial governments are financed through national government conditional and unconditional grants, national government refunds of certain revenues and, to a very limited extent, their own taxation measures. Unconditional grants, which allow provinces to spend according to their own priorities, are by far the most important source of finance; but, while in the 1984 budget they comprised over 70% of the total receipts of the provinces, they amounted to less than one quarter of total national government revenues. One of the most serious problems facing provincial governments is the shortage of trained and experienced staff, and the most urgent priority of the provinces is to develop the capability for budgeting, planning, and project identification and preparation.

17. Self-reliance in PNG involves both availability of skilled manpower and financial resources. On the staffing side, the Government has made substantial progress in replacing expatriates with nationals, especially considering that the University of Papua New Guinea produced its first graduates as recently as 1972. However, the country still relies heavily on expatriates for many necessary services. This situation has created a relatively high-cost government financed partly by the Australian grant (equal to about 10% of GDP, or about one-third of total government revenues. The establishment of provincial governments is adding to the pressures on existing staff, and the policy of localizing positions held by expatriates adds to the demand for trained Papua New Guineans.

18. The Government's efforts to attain financial self-reliance emphasize modest but steady and sustainable growth in real public expenditure, accompanied by a reduction of reliance on foreign aid from Australia. Domestic revenue accounted for only about 36% of government receipts in FY68, 60% of the total in FY76 (immediately after independence); and 66% in 1983. Over the past seven years, the Bougainville copper mine has been a major source of domestic revenue, averaging 18% of the total and reaching a peak of 27% in...
FY76, but falling to 3.3% in 1983. While mineral revenues will be substantially restored after 1984, when the Ok Tedi mine became fully operational, revenues from these sources may not regain their former share of overall revenues.

19. The Australian grant, which amounted to about K 185 million in 1982, was designed to decline by 5% a year in real terms from its 1980 Australian dollar level over the 1980/81-1985/86 period. However, because of PNG's budgetary difficulties, the rate of decline was renegotiated to 1% beginning in 1983/84, 2% in 1984/85 and 3% in 1985/86.

20. Capital expenditures (including those financed by external assistance) as a share of the total budget have been relatively modest. These expenditures doubled between 1978 and 1980 (to reach 20% of the total budget), and they have remained at those nominal levels since then. While in the past the availability of the Australian grant, together with substantial revenue from the mining sector, may have contributed to a certain laxity in financial discipline in the area of current expenditures (particularly for wages and salaries), this situation no longer prevails. Even with fairly substantial increases in taxes over the period (but excluding the Australian grant) government revenues have stagnated between 1980 and 1982. However, reflecting the improvement in commodity prices of 1983, together with the improvement in the Australian grant, 1983 revenues were up over 10%.

21. While economic management has been largely sound, the country's growth performance has been disappointing. Of particular concern is a lack of growth in the agricultural sector, which will have to absorb the bulk of the additions to the labor force in the foreseeable future. Despite a great potential for agricultural development, even with the current world price situation, investment in the sector remains low, and its prospects for the coming decade are not bright unless steps are taken to bolster its growth. The major constraints have been inadequate extension services for smallholders, a lack of finance, land laws which prevent the consolidation of holdings too small for economic development, and a shortage of managerial talent. The country faces a particularly serious problem in the area of coffee. Production of this crop has fared better than other major agricultural exports, with production now about 50% over the International Coffee Organization (ICO) quota. Unfortunately, sales to the non-ICO market bring a price 40% below the ICO price. The Government recognizes this problem and intensive studies on crop diversification are being undertaken.

External Sector

22. PNG experienced huge trade deficits prior to the introduction of copper exports in FY73. The current account deficit was around one quarter of GDP in the early 1970s. Imports were over 50% of GDP, whereas exports were only about one third as high. Since FY73, however, earnings from copper exports have dwarfed those from other commodities, and, except for small deficits in FY75/76 when copper and copra prices fell, the balance on current account, which includes the large Australian grant, remained positive, despite large service payments, and reserves of foreign exchange reached ten months' worth of imports in mid-1979. However, falling commodity prices, a decline in
the copper content of the Bougainville mine and continued inflation in the import sector have dramatically changed the situation, with the current account turning from a positive K 55 million in 1979 to a negative K 327 million (about 16% of GDP) in 1983. In that year, the overall balance, at K 83 million, was positive for the first time since 1979, and international reserves are now sufficient to cover 5.3 months of imports.

23. The current account deficit is likely to be substantial through 1984, remaining roughly at the same high levels as in 1983, and only gradually declining through 1986. This will be the case not only because of the adverse commodity price situation, but also because requirements for the construction of Ok Tedi are expected to cause imports to grow faster than exports, at least well into 1984. Especially with the help of Ok Tedi gold exports and continuing conservative demand management, exports are expected to begin again to exceed imports and the resource balance is expected to turn positive by the mid-1980s. During the period in question (1983-1987), PNG is likely to require an average net capital inflow of about US$300 million p.a. The minerals sector is expected to finance considerably more than over half of the inflow through direct foreign investment and borrowing; Ok Tedi-related borrowings were US$330 million in 1983. With respect to official borrowings, public debt service, estimated at 7.6% in 1983, is not expected to grow further (it was 5.0% in 1981), and by 1990 should be down to 3%. Thus despite a large measured current account deficit, PNG's external position is a highly comfortable one. Total external public debt outstanding as of December 31, 1982 amounted to US$748 million, of which US$196 million (26%) was owed to the Bank Group. Debt service payments to the Bank Group are only 8% of total debt service payments.

PART II - BANK GROUP OPERATIONS

24. As of September 30, 1984, Bank Group assistance to Papua New Guinea consisted of 13 loans and 13 development credits, totalling US$308.3 million. The first operation was a telecommunications loan of US$7.0 million approved in 1968; most recently a secondary education project (US$49.3 million) was approved by the Board in March 1984. Project implementation has been satisfactory. The first rural development project in the Southern Highlands experienced some difficulties with recruitment of essential expatriate staff as the rapid turnover of expatriates and the transitional problems of recruiting and training their replacements led to delays. Physical implementation is now approximately on schedule. As of September 30, 1984, nine credits and six loans were fully disbursed, and the loans and credits to Papua New Guinea held by the Bank and IDA amounted to US$287.2 million. Annex II contains a summary statement of Bank loans and IDA credits.

25. In recent years Bank Group lending has emphasized agriculture with strong support in education and transport and some lending for energy. The Bank's strategy for future lending is based on three objectives: (a) support for more growth-oriented policies and institutions; (b) development of opportunities for permanent, cash-economy employment based on the substantial agricultural resources of the country; and (c) promotion of human resource devel-
opment. A nucleus estates project, a rural roads project and a third power project are under preparation. The proposed West Sepik provincial development project would assist one of the least developed provinces in line with the above objectives.

26. Disbursement performance on Bank Group projects has been extremely varied. Shortly before and just after independence, disbursement rates were unusually high, reflecting the relatively small and simple pre-independence projects and the fact that they were managed by an experienced expatriate civil service. The disbursement rate3/ for FY84 was 31.2%, compared to an average of 28.6% for FY80-84. Disbursement rates for selected comparators for FY80-84 were as follows: Colombia - 22.7%; Philippines - 22.5%; Morocco - 16.1% and Benin - 26.8%. It does not seem possible to determine a trend since low disbursement years are followed by a high disbursement year, then another low disbursement year. PSG's disbursement figures reflect periodic disbursements of substantial amounts against individual large projects rather than steady disbursements for all projects.

PART III: AREA DEVELOPMENT OF WEST SEPIK PROVINCE

Background

27. Because of concern about uneven economic and social development in PNG, the Government has identified nine (out of a national total of 19) less developed provinces (LDPs), including West Sepik, which rank below the national average with respect to development indicators measuring health, education, land availability, and transport. Incomes of most people residing in the LDPs are less than 30% of the per capita national average. Raising the living standard of people in the LDPs and developing more even distribution of public and private services and economic opportunities have become increasingly important features of the Government's development plans. At present the Government is implementing multi-sectoral projects in three LDPs, two with Bank financing in the Southern Highlands and Enga, and one in East Sepik financed by the Asian Development Bank. The Bank's involvement in the LDP program has had a noteworthy impact on the design of projects under the program, in particular in formulating measures to ensure that the projects are appropriate on financial and economic grounds and sound on technical and implementation aspects. The proposed project is also suitably designed and its nature and thrust are in line with the Bank's country assistance strategy for PNG. An important contribution of the project would be promoting provincial institution building and development of new subsistence farming technologies and approaches. Lessons learned from these efforts would benefit other provinces. Given the limited resources available to the Government, the Bank's participation is crucial to implementation of the proposed project.

3/ The disbursement rate is derived by dividing the actual disbursement during the fiscal year by the net cumulative undisbursed balance.
Project Area

28. West Sepik is a remote province, with an area of about 36,000 sq km or about 7% of the country. It has three broadly defined zones: a high mountainous region to the south, the Sepik River Basin in the middle, and a low coastal mountain range and narrow littoral strip to the north. The predominant vegetation is rain forest with patches of grassland. It has a population of about 114,000 and a population density averaging 3.1 per sq km. West Sepik is one of the most rural provinces, with about 94% of the population living in rural areas; the remainder live in urban government centers, the largest of which is Vanimo with a population of about 3,000. Population is growing at about 2.5% p.a., and is likely to increase in the future, given the high proportion of young people, improvements in health services and low emigration.

29. The province is one of the last areas to be brought under the Government’s administrative control, and has had sustained contact with the outside world for only about 40 years. In 1978 it was given the status of a province. Public administration in the province is the responsibility of the Department of West Sepik.

30. Socio-Cultural Environment. The province still remains a clan-based subsistence-oriented society with a very rudimentary standard of hygiene, clothing and shelter. There is little political integration beyond the clan, which constitutes the basic unit of land tenure. Although clan lands have recognizable boundaries, they are often subject to disputes. Each family has access to land for food gardens, but gardening and hunting rights are very complex and vary among the clans. Men undertake the heavy tasks of clearing and preparing the land, and hunting and gathering, while women tend the food gardens. Men devote a fair part of their time to ceremonies and rituals. Despite the traditional nature of the West Sepik people, there is evidence of a general desire for socio-economic development. In general local attitudes and customs and the land-tenure system do not pose an insurmountable barrier to development and change.

31. Subsistence agriculture in the province differs according to the area. In the higher altitudes and some coastal areas, the predominant activity is gardening, the main crops being sweet potato and taro. Everywhere else, the people rely principally on cultivated and wild stands of sago. Hunting and gathering are common to all rural people. The subsistence system based on sago is inadequate in two respects. It does not provide good nutrition and in certain areas it is not productive enough to feed the population; it is important to consider ways of increasing food production. Mere expansion of the subsistence system would not be an adequate solution since it provides a poor diet. What is needed is a diversification of the system to include new food crops with better nutritional value. Currently, the development of food crops is constrained by weak extension services and lack of adaptive research on suitable crops and technologies.

32. Except for pigs which are consumed mainly at rituals, livestock is not of great importance. However, its introduction could provide a substantial source of protein and a substitute for dwindling bush game. Farmers have
responded well to producing poultry and livestock for home consumption; in many instances local markets have developed for these products. Fishing is still primarily for subsistence, although the Division of Primary Industry (DPI), with moderate success, has been encouraging commercial development of small-scale coastal fishing, salted fish and crocodile hunting for skins.

33. Commercial Agriculture. Around 30% of the provincial population is involved to some extent in cash cropping of either tree crops or vegetables. In 1982 total production of the main tree crops amounted to only 30 tons of cocoa, 800 tons of copra and 90 tons of coffee; this is less than 0.25% of national cash crop output. Most of the production is by smallholders and average holdings range from 0.15-0.3 ha. To increase smallholder planting, DPI has a modest seedling distribution program which enables new planting of about 5-20 ha annually for the various crops. Income from these crops is very low because of low yields and poor quality of product. Inadequate supply of good seedlings, poor cultivation and harvesting practices, and lack of extension have all contributed to the unsatisfactory yields and production. Further, the poor road network and marketing infrastructure have inhibited marketing and, consequently, production.

34. DPI has recently begun to encourage smallholder production of vegetables (as cash crops) on a limited scale. As a result of strong DPI support through extension, planting material supply and marketing assistance, a successful vegetable project has been in operation in the Telefomin-Oksapmin area supplying vegetables to the Ok Tedi mine in the neighboring province. Demand is growing rapidly at Ok Tedi and the coastal towns, and efforts are needed to increase the supply base and improve existing marketing infrastructure.

35. There is a significant forestry potential in the province and the Government is seeking joint venture partners for a large logging project (100,000 ha) in the Vanimo District.

36. Provincial Economy. Owing to the nature of the socio-economic system and limited development efforts so far, the provincial economy is characterized by lack of a developed monetary sector as well as a limited number of commercial activities. Of the province's total estimated value of output in 1983 (K 24 million), the subsistence sector accounts for about 95% (national average is only 15%), cash crops for only about 1%, and government expenditures for the remaining 4%. There are almost no employment opportunities outside the Government and the church organizations.

37. Public Services. West Sepik is one of the least developed provinces in terms of access to public services and, with respect to development, the National Planning Office's (NPO) composite development index ranks it last among the 19 provinces. The ratio of government expenditures and staff to population is among the lowest in the country. The health of the population is the worst of all the provinces. This is partly due to local diet and partly to the inadequacy and poor quality of the available health services,

4/ References are to provincial offices unless otherwise stated.
which generally suffer from a lack of both proper equipment and adequately trained staff. The educational standards are low and falling, particularly in the isolated community schools which serve scattered and remote populations.

38. **Agricultural Support Services.** DPI is responsible for extension (including input supply and farmer training) and marketing support. In general, crop extension has been inadequate, and little effort has gone into food crops or livestock. Moreover, the effectiveness of extension has been limited because of the concentration of extension staff in the larger district centers, poor staff mobility due to the widely dispersed population, rudimentary and expensive transportation network and limited travel funds, and inadequate experience, supervision and training. Marketing is also a major constraint to cash crop development; because of low volumes, poor access and weak marketing infrastructure, private traders operate in very few areas. To provide initial impetus, DPI has to step in, and in some cases has been very successful in organizing the marketing system and letting the private sector take over when sufficient business volume was reached.

39. **Roads.** One of the most important constraints to improving agriculture and the availability of government services in the province is the rudimentary transportation network. Light aircraft play a major role in the provincial passenger and freight traffic. The provincial road network is fragmented and does not provide intra-provincial connections. Of the province's some 620 km of roads, 280 km are national highways, and in general are adequately maintained. The rest are in bad condition, because of lack of adequate maintenance.

### PART IV - THE PROJECT

40. The proposed project was prepared by the West Sepik Provincial Government, with assistance from the National Government. The Bank appraised the project in November 1983. Negotiations were held in Washington, D.C. from August 27 to 29, 1984. The PNG delegation was led by Mr. Robert Kaul, Assistant Secretary, Ministry of Finance. A Staff Appraisal Report (No. 5017-PNG, dated October 11, 1984) is being distributed separately. Supplementary project data are provided in Annex III.

**Project Objectives and Scope**

41. The project is the first five-year phase of a 30- to 40-year program to bring the province out of its isolation and into a more integrated and modern way of life. It responds both to the people's frequently reiterated desire for better roads, health services, schools and opportunities to increase cash income, and the development goals of the province particularly to increase growth in the agriculture sector, improve effectiveness of government services, and increase the provincial revenue base. The project would accelerate the building of a human, agricultural, institutional and physical resource base for sustained economic growth. A positive feature of the project is the involvement of local leaders, technocrats and provincial inhabitants in its preparation. Further, it concentrates on improvement and
expansion of existing activities, and is designed to ensure that the components and the envisaged pace of change are feasible in the provincial sociocultural setting.

42. The project's main development effort aims to increase marketed and nonmarketed agricultural output (and consequently family incomes) through encouraging farmers to increase cash crop plantings and diversifying food production. The strategy employed is to strengthen agricultural support services and improve transport, thereby enabling farmers to have access to markets, technical advice, planting material and other inputs. To implement the agricultural components, the farmers will be expected to allocate more time to cultivation and less to hunting, gathering and rituals. The development approach is based on minimizing the development costs and farmers' labor and input requirements; on limited use of agro-chemicals; and on siting the project activities in areas where acceptance is likely to be high.

43. The project involves: (a) agricultural development comprising subsistence agriculture, cash crops, including tree crops and vegetables, strengthening of support services and special studies to investigate and prepare future agricultural projects; (b) infrastructure development, including road upgrading and rehabilitation, airstrip upgrading and wharf construction; (c) health and nutrition services development including malnutrition research in the Lumi district, a school nutrition program, and training and supervision of primary health care workers; (d) education and training improvement comprising establishment of central community schools, boarding facilities, an in-service training center, and vocational training; and, (e) institution-building through upgrading of the provincial management, financial and staff development functions.

Detailed Description

44. Agricultural Development (US$3.8 million). With the objective of increasing and diversifying subsistence food production, the project would establish a food crops section to: (a) train and guide extension staff in developing subsistence farming systems through promotion of simple technological changes, establishment of nutritionally higher value food gardens and use of basic tools; (b) initiate adaptive research on lowland subsistence farming; and (c) assist with a survey of subsistence gardening practices throughout the province to establish baseline data. Work by the section, comprising an expatriate horticulturist and a counterpart national staff would result in increased yields and diversification of food production, improved soil management, and reduction of fallowing. By the end of the project period it is expected that about 2,000 families would be reached and garden areas would increase by about 100 ha.

45. Production of cash crops, to raise family incomes, would be increased by improving and expanding the production of temperate vegetables, rubber, coffee and cocoa. To meet a rising demand for vegetables, production

5/ Figures in parentheses are base line costs, exclusive of contingencies.
and marketing of vegetables would be supported by recruitment of additional extension workers, the establishment of additional nurseries in order to increase distribution of planting material and seeds, the construction of new marketing facilities and expansion of existing facilities, and upgrading of transport infrastructure.

46. A major thrust of the project is to expand tree crop production and productivity in areas with good road access and where these crops are already established. Additional extension staff would be recruited, nurseries established, DPI outstations upgraded and marketing assistance provided. The project would increase cocoa and rubber plantings through the provision of good quality planting material, upgrade existing tree crop smallholders through increased technical assistance on better cultivation and harvesting practices, and assist with marketing and processing. The project would assist 800 families plant about 160 ha of cocoa, 1,000 existing coffee/cocoa growers improve operations, 300 farmers plant about 100 ha of rubber, and 500 existing producers market their rubber.

47. The project would also strengthen the province's other agricultural support services as follows: (a) the livestock station at Pasi would be upgraded so that it could provide young livestock to smallholders. Poultry and livestock distribution is important to improve nutrition and in some cases to provide a source of cash income; (b) distribution of basic agricultural tools and inputs would be supported in remote areas through DPI outstations; and (c) both DPI field staff supervision and the cash crop marketing section would be strengthened.

48. To prepare for future agricultural development under subsequent projects, funds have been provided for investment studies, including land-use studies aimed at establishing large-scale tree crop development schemes in the province, and fishery resource surveys aimed at assessing the coastal fishing potential of the province to develop small-scale artisanal fishing projects. The scope and cost of these studies would be submitted to the Bank for comments prior to their initiation (Section 3.08 of the draft Loan Agreement).

49. Infrastructure Development (US$2.8 million). Priority infrastructure works would be financed under the project, the most important being upgrading or rehabilitation of four provincial roads (totalling about 56 km) and six district roads (totalling about 68 km). All of the roads are located in areas with potential for expanding cash crop production, and are included in the provincial government's road development plan which is directed at linking population centers with the main government and trading centers. A condition survey, to prepare detailed scope of works and final costs of first year roads, is underway and expected to be completed by end-1984. The project would also finance the upgrading of three airstrips for transport of temperate vegetables produced under the project and the construction of a small wharf at Tipas for landing of Sepik River barges. To ensure the good condition of the roads, which is crucial to the proposed development effort, the Government would provide adequate funds for maintenance of the roads which would be improved and upgraded under the project. The level of funds will be reviewed and revised periodically in light of inflation, and the condition and usage of individual roads. The Department of Works and Supply would maintain provin-
cial roads and supervise district road maintenance (Section 3.05 of the draft Loan Agreement). It would also construct buildings and houses for all project components according to standard designs.

50. **Health and Nutrition Component (US$0.5 million).** The project would improve the quality and coverage of nutrition and health services. Two school nutrition programs would be carried out to improve the diets of high school and community school students. Food farms (vegetables, small livestock) would be established at each of the province's six high schools in order to improve diets and reduce food procurement expenditures. In about 38 community schools, a school agriculture and nutrition program would be introduced, which involves teachers, students and parents in the development of school vegetable gardens (about 1 ha) and instruction on good nutrition and gardening practices. Vegetables from the school garden would be used for a school lunch program. In addition, the project would improve the quality of primary health care delivery throughout the province. Funds would be provided for the establishment and operation of a training school for aid post orderlies at a Health Center in Lumi, and the recruitment of a Health Extension Officer for each of the province's six Health Centers to increase the level and effectiveness of supervision of aid posts.

51. **Education and Training (US$0.9 million).** The project would improve the effectiveness and coverage of the formal education system and expand vocational education through: (a) the expansion of eleven community schools into Central Community Schools through the construction of boarding facilities and additional classrooms; this would be conditional on the results of an ongoing Central Community School pilot program which would be evaluated in 1986 (Section 3.10 of the draft Loan Agreement); (b) construction of boarding facilities for about 200 students at the Lumi High School, most of whose students come from outlying areas; (c) establishment of an in-service training center at Lumi to train the province's teachers; and (d) establishment or upgrading of two vocational centers to train carpenters.

52. **Lumi District Special Program (US$0.2 million).** The Lumi district is a particularly disadvantaged area in the province in terms of poverty and poor nutrition. To supplement the province-wide programs for food and cash crop development which would also benefit the Lumi people, the project would support specific programs in the district to improve the welfare of the people and delivery of government services. A Village Development Center would be established at Lumi where meetings, training sessions, and demonstration activities in agriculture, health, family planning, adult education, etc. would be organized by relevant agencies. In view of the large number of project activities in the Lumi district, a district coordinator (recently appointed) would assist government implementing divisions and the district administration, and manage the center. Two studies focusing on the district would also be undertaken: the causes of child malnutrition would be investigated by the PNG Institute of Medical Research, and corrective programs proposed; and a comprehensive socio-economic survey (started in 1983) would be carried out in five representative district villages, by the Education Research Unit of the University of PNG, to monitor and assess changes resulting from project interventions.
53. **Institution Building (US$1.3 million).** The project would upgrade the province's planning and management capabilities by financing the services of four additional staff - a Project Coordinator and a Monitoring and Evaluation Officer, both expatriates, and two national counterparts - for the province's newly created Planning and Coordination Division. The Division would be responsible for coordinating project planning and assisting the provincial line divisions with implementation, strengthening the provincial planning, management and reporting system, establishing a project monitoring and evaluation system, assisting line divisions in preparing sectoral plans, and reviewing and processing proposals for inclusion in future national plans. The provincial Finance and Management Services Division would also be strengthened through the provision of an expatriate Finance Officer and a national counterpart. The Finance Officer would be responsible for the accounting of all project expenditures and would also assist with upgrading the provincial accounting system.

54. Further, staff training and development would be supported by the establishment of a provincial Staff Development Unit to assess staff training needs and to implement an in-service training program. The Unit would be staffed by an expatriate provincial staff development officer and a counterpart. By December 31, 1985, the Unit would submit to the Provincial Management Team and the Bank a preliminary report outlining the future work program and recommendations on urgently needed training, and by December 31, 1988, a final report evaluating the training program with recommendations for future programs (Section 3.09 of the draft Loan Agreement).

55. **Additional Activities (US$1.3 million).** Funds have been allocated under the project for subprojects which are likely to be identified by project-funded studies or linked to other development efforts in the province. All such subprojects would first be reviewed by the NPO and included in the National Public Expenditure Plan. The Bank would approve any new subproject costing more than US$75,000 (Section 3.10 of the draft Loan Agreement).

56. **Less Developed Provinces' Planning Studies (US$1.5 million).** The project would finance the National Government's Less Developed Provinces' (LDP) Studies Fund which assists LDPs to prepare development plans. Preparation of the proposed project and the two ongoing Bank-financed provincial development projects was funded by the LDP fund. A team of specialists and short-term consultants, as needed, would be recruited by the province and the NPO to work with provincial planning staff for two to three years in preparing the development plans. An outline of the scope and cost of the studies would be submitted to the Bank for comments prior to their initiation (Section 3.08 of the draft Loan Agreement).

**Implementation Period and Status**

57. Project implementation would cover a period of six years 1985-89. The project would be carried out in accordance with agreed implementation and staff recruitment schedules (Section 3.01(b) of the draft Loan Agreement). To help assure prompt start of the project, initiating steps for staff recruitment are underway. All positions have been approved, the recruiting firm for
employment of overseas staff has been engaged and first year positions for local staff are expected to be advertised before March 1985. Key staff are expected to be selected in early 1985, which is a condition of loan effectiveness (Section 5.01 of the draft Loan Agreement).

Project Cost and Financing

58. Total project costs are estimated at about US$16.6 million, including a foreign exchange cost of about US$8.4 million or 51%. Taxes and duties amount to about US$0.4 million. Base costs refer to July 1984 prices; unit prices for equipment, materials and supplies, salaries and civil works are based on unit costs used by NPO and actual costs for similar projects. Physical contingencies amount to 7% of base costs and include 20% on roads, and 10% on houses, materials and equipment. Price contingencies amount to 28% of base costs plus physical contingencies, and have been calculated as follows: 3.5% in 1984, 8% in 1985, 9% for 1986-88 and 7.5% for 1989 for foreign costs; and 8% in 1984-85, 9% in 1986-88 and 7.5% in 1989 for local costs.

59. The proposed Bank loan of US$9.7 million, including the capitalized front-end fee of about US$24,200, would finance 60% of project cost, excluding taxes. The loan would cover the total foreign exchange requirement of US$8.4 million plus local costs equivalent to US$1.3 million. Local cost financing is justified in view of the current financing constraints in PNG and the high priority attached by Government to socio-economic development of LDPs. The remaining US$6.9 million would be provided by Government. Critical start-up activities (para. 57) and an LDP study will commence prior to project start. Retroactive financing of up to US$400,000 is therefore proposed for such project expenditures made after March 31, 1984 (Schedule I, paragraph 4 of the draft Loan Agreement). All project funds would be allocated under the National Public Expenditure Plan for 1984-89 and financed by the National Government out of annual budget appropriations and released on a quarterly basis.
Procurement

60. Procurement arrangements are shown in the following table:

<table>
<thead>
<tr>
<th>Project Element</th>
<th>Local competitive bidding</th>
<th>Force account applicable</th>
<th>Total cost (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil works</td>
<td>0.32</td>
<td>5.33</td>
<td>5.65</td>
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<tr>
<td></td>
<td>(0.26)</td>
<td>(4.26)</td>
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<td>Vehicles, equipment and furniture</td>
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<td></td>
<td>(0.22)</td>
<td></td>
<td>(0.22)</td>
</tr>
<tr>
<td>Technical assistance and consulting services</td>
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<td></td>
<td>2.80</td>
</tr>
<tr>
<td></td>
<td>(2.24)</td>
<td></td>
<td>(2.24)</td>
</tr>
<tr>
<td>Incremental operating costs</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>(2.72)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.60</strong></td>
<td><strong>5.33</strong></td>
<td><strong>10.66</strong></td>
</tr>
<tr>
<td></td>
<td><strong>(0.48)</strong></td>
<td><strong>(4.26)</strong></td>
<td><strong>(9.70)</strong></td>
</tr>
</tbody>
</table>

Note: Figures in parentheses are the respective amounts financed by the Bank.

61. In view of West Sepik's remote location and the relatively small size and scattered nature of project activities, international competitive bidding would not be feasible or appropriate for works and goods to be procured under the project. Local contracting capacity is limited to small building works. Road upgrading and most building works would be carried out by the Department of Works and Supply through force account, but using hired plant whenever possible. Individual building works range in cost from US$30,000 to US$100,000, and road works from US$75,000 to US$300,000. Vehicles, equipment and furniture would be procured through local competitive bidding procedures, which are satisfactory.

Accounts and Audits

62. Project expenditures would be processed in accordance with regular government accounting procedures which are sound and consistently applied. Project accounts would be consolidated on a quarterly basis by the Project Coordinator with the assistance of the Project's Finance Officer. The accounts would be audited by independent auditors acceptable to the Bank. Copies of the audited accounts would be submitted to the Bank not later than six months after the end of the fiscal year and would contain a separate
opinion on the compliance of expenditures with the purposes of the project, accuracy of the statements of expenditure, and the procedure and controls used for preparation of claims.

Disbursements

63. The Bank loan would be disbursed at the rate of 80% for civil works; vehicles, equipment and furniture; and technical assistance and consulting services. Disbursements for incremental operating costs would be made on the basis of 60% for applications received before December 31, 1986, 40% for applications received before December 31, 1988 and 30% thereafter. Bank funds would be disbursed quarterly on the basis of statements of expenditure prepared by the Project Coordinator. Detailed documentation supporting these statements would be retained at the Project Coordinator's office and be made available to the Bank for inspection during project supervision. Retroactive financing of up to US$400,000 is proposed to finance eligible project expenditures for start-up activities after March 31, 1984 (para. 59). Disbursements are expected to be completed by December 31, 1990, the closing date for the project.

Organization and Management

64. The Department of West Sepik (through its various divisions) would be the executing agency for all project components except the special studies. The LDP studies would be implemented by the Area Planning Division of the NPO; the land-use studies and fishery resource surveys would be undertaken by the National Department of Primary Industry's Divisions of Land Use and Fishery Research, respectively. The organization, management and implementation arrangements are integrated with, and complementary to, existing provincial programs, and are designed to strengthen the provincial administrative structure. With the additional staffing and coordination assistance provided under the project, and efforts toward staff development, all provincial divisions are expected to be capable of implementing their respective components.

65. Overall coordination and management of project implementation (excluding studies) would rest with the Secretary of the Department of West Sepik. Coordination among the implementing divisions would be effected through the Provincial Management Team which meets monthly, consists of heads of all provincial and national divisions, and is chaired by the Secretary; the Team would also include the Project Coordinator and the Monitoring and Evaluation Officer during the project period. The Headquarters Project Coordinating Committee would be established as soon as the project activities start; it would serve as the overall facilitating mechanism at the national level and comprises the heads of national departments involved in activities supporting these projects. A Headquarters Project Coordinator in the Office of Project Coordination (Department of Finance) would serve as secretary to the coordinating committee, and would be the main contact point for provincial implementing agencies and the Project Coordinator in national matters related to the project.
66. Over the six-year project period, 1984-89, 33 additional staff would be recruited. Of these, 23 would be nationals, 7 expatriate contract officers and 3 volunteers supplied by volunteer agencies. Twenty-one staff would occupy permanent positions continuing after the project. The country's shortage of nationals with the required training and experience, necessitates the engagement of expatriates for key technical and coordination positions. Counterparts to the expatriates would be recruited and trained on-the-job. Loan effectiveness is conditional on the offer of employment to seven key specialists (Project Coordinator, Provincial Food Crops Officer, Rubber Extension Officer, Provincial Economics and Marketing Officer, Monitoring and Evaluation Officer, Finance Officer, and Provincial Staff Development Officer) and advertised notice in the government gazette for the positions of Cash Crops Extension Officer, a Nursery Manager and two Extension Officers for Vegetables (Section 5.01 of the draft Loan Agreement). Key professional staff retained under the project would have qualifications, experience, and terms of reference satisfactory to the Bank.

67. Monitoring of the project's physical and financial progress would be essentially the same as for other government projects, although government capability in this regard would be strengthened. Quarterly physical/financial reviews would be undertaken at the provincial level by the Project Coordinator. Once each year, the NPO would undertake a detailed physical/financial field review, with support from other national departments and, based on the findings of this review, would prepare a report for the Provincial Management Team, which would highlight any problem areas and actions to be taken (Section 3.03 of the draft Loan Agreement). The Project Coordinator would prepare quarterly progress reports and submit these to the Bank through the Office of Project Coordination. The report of the NPO's review team would also be attached to the relevant quarterly progress reports.

68. The socio-cultural appropriateness and effectiveness of project activities on the people, particularly women in view of their important role in subsistence activities, would be monitored by the Monitoring and Evaluation Officer; in the Lumi district, this work would be performed by the Education Research Unit team. The provincial Planning and Coordination Division would be responsible for overall project monitoring and evaluation. For this purpose it would design and implement, with assistance of appropriate provincial and national divisions, a data gathering and evaluation system by June 30, 1986, and by the same date complete a baseline survey of the province's agricultural sector (Section 3.07 of the draft Loan Agreement). In view of the nature of this project a mid-term evaluation would be undertaken, jointly by the national and provincial governments, at the end of the first two years.
Benefits and Justification

69. The project is set in a very underdeveloped context, is multisectoral in nature and is the first phase of a long-term program of investments. Project justification consequently has to be viewed in a long-term context and has to accommodate the fact that a sizeable portion of the benefits would be nonquantifiable. Important nonquantifiable benefits of the project include: more balanced diets, better health and nutrition, improved educational coverage and quality, and improved government services. Overall, the project would accelerate the process of nation building and assist people in making a transition from an isolated setting to a more "modern" way of life.

Risks

70. The project has three main areas of risk: timing of staff recruitment; effective project coordination and management; and cultural acceptance of project activities. The recruitment risk is being minimized by ensuring appointment of key staff before start of project. The coordination and management risk arises from the broad scope of the project and the untested performance of provincial administrative staff. The provincial Planning and Coordination Division would therefore be strengthened under the project to enhance management and coordination, and at the national level the Headquarters Project Coordinator would deal with any problems which cannot be handled in the province. These arrangements should reduce coordination risks to a manageable level.

71. When new technologies are introduced into a traditional society that has only recently come into contact with the modern world, it is unavoidable that modern methods will violate long-standing traditions. Attempts to introduce new farming or dietary practices could be unsuccessful for this reason. To minimize this risk, local leaders, socio-cultural specialists and technocrats have been involved in designing the project, and the proposed changes have been kept modest and require low levels of skills and technology. Also, project targets have been set low. Further, the Monitoring and Evaluation Officer would assess, among other things, implementation, including the cultural implications of change, particularly on women, and provide feedback. This measure is designed to overcome the risk of introducing inappropriate initiatives and to ensure that changes can be introduced during implementation that will enhance the impact of the development effort.

Fiscal Impact

72. Given the nature of this project and the poverty of the provincial population, no cost recovery is expected from participants. The national Government would bear the full cost of the project, which is of modest scale and well within the means of the country. During the project period, the average yearly project expenditures would be about K 1.8 million (1984 prices) or less than 0.3% of the national budget for 1984. In view of the province's limited ability to generate revenues, the incremental recurrent costs of the project after completion would be borne by the national Government. In the short run, revenues from the project would be negligible, but, over the long run, revenues should accrue to both the national and provincial governments.
PART V - LEGAL INSTRUMENTS AND AUTHORITY

73. The draft Loan Agreement between the Independent State of Papua New Guinea and the Bank and the report provided for in Article III, Section 4 (iii) of the Articles of Agreement are being distributed separately to the Executive Directors. Special conditions of effectiveness are that (i) offers of employment have been extended to seven key specialists; and (ii) four other positions have been advertised in the government gazette (para. 66). Special conditions of the project are listed in Section III of Annex III.

PART VI - RECOMMENDATIONS

74. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

75. I recommend that the Executive Directors approve the proposed loan.

A.W. Clausen
President

Attachments

October 11, 1984
Washington, D.C.
<table>
<thead>
<tr>
<th>AREA (THOUSAND SQ. MI)</th>
<th>PER CAPITA GNP</th>
<th>PER CAPITA PERSONAL INCOME</th>
<th>PER CAPITA TAXABLE GROSS NATIONAL PRODUCT</th>
<th>LABOR FORCE</th>
<th>HOUSEHOLDS</th>
<th>PERSONS</th>
<th>FAMILIES</th>
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<td>261.7</td>
<td>281.2</td>
<td>1,007.2</td>
<td>2,007.8</td>
<td>1,014</td>
<td>821</td>
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<td>4.8</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<td>ENERGY CONSUMPTION PER CAPITA (KCALORIES OF CALORIC EQUIVALENT)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>POPULATION, END OF YEAR (1,000)</td>
<td>1832.2</td>
<td>2418.0</td>
<td>3128.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### TABLE 3

<table>
<thead>
<tr>
<th>EDUCATION</th>
<th>1960(%)</th>
<th>1970(%)</th>
<th>MOST RECENT ESTIMATE(%)</th>
<th>ASIA &amp; PACIFIC</th>
<th>LAT. AMERICA &amp; CAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIMARY: TOTAL</td>
<td>32.0</td>
<td>52.0</td>
<td>65.0</td>
<td>102.0</td>
<td>105.4</td>
</tr>
<tr>
<td>MALE</td>
<td>39.0</td>
<td>63.0</td>
<td>73.0</td>
<td>105.9</td>
<td>106.3</td>
</tr>
<tr>
<td>FEMALE</td>
<td>7.0</td>
<td>39.0</td>
<td>38.0</td>
<td>90.2</td>
<td>104.3</td>
</tr>
<tr>
<td>SECONDARY: TOTAL</td>
<td>1.0</td>
<td>8.0</td>
<td>13.0</td>
<td>46.9</td>
<td>43.1</td>
</tr>
<tr>
<td>MALE</td>
<td>2.0</td>
<td>11.0</td>
<td>17.0</td>
<td>48.7</td>
<td>42.3</td>
</tr>
<tr>
<td>FEMALE</td>
<td>1.0</td>
<td>4.0</td>
<td>8.0</td>
<td>43.1</td>
<td>44.3</td>
</tr>
<tr>
<td>VOCATIONAL (% OF SECONDARY)</td>
<td>16.0</td>
<td>19.4</td>
<td>16.2</td>
<td>17.3</td>
<td>33.6</td>
</tr>
<tr>
<td>PUPIL-TEACHER RATIO</td>
<td>35.0</td>
<td>30.0</td>
<td>32.0</td>
<td>31.8</td>
<td>30.1</td>
</tr>
<tr>
<td>SECONDARY</td>
<td>18.0</td>
<td>..</td>
<td>22.0</td>
<td>23.3</td>
<td>16.8</td>
</tr>
<tr>
<td>ADULT LITERACY RATE (%)</td>
<td>29.4</td>
<td>32.1</td>
<td>32.0</td>
<td>72.9</td>
<td>75.3</td>
</tr>
</tbody>
</table>

### CONSUMPTION

| Passengers/THOUSAND POP | 2.0 | 7.2 | 6.1 /% | 10.1 | 46.0 |
| TV RECEIVERS/THOUSAND POP | .. | .. | 66.8 | 113.6 | 221.6 |
| NEWSPAPER (“DAILY GENERAL INTEREST”) CIRCULATION PER THOUSAND POPULATION | .. | .. | .. | 50.1 | 107.2 |
| COTTON ANNUAL ATTENDANCE/CAPITA | .. | .. | .. | 3.9 | 61.3 |

### LABOR FORCE

| TOTAL LABOR FORCE (THOUS) | 1558.0 | 1217.0 | 1337.0 | .. | .. |
| FEMALE (PERCENT) | 41.6 | 61.3 | 40.9 | 33.5 | 23.2 |
| AGRICULTURE (PERCENT) | 68.0 | 36.0 | 82.1 | 52.2 | 31.3 |
| INDUSTRY (PERCENT) | 4.3 | 5.8 | 7.7 | 17.9 | 22.9 |
| PARTICIPATION RATE (PERCENT) | .. | .. | .. | .. | .. |
| MALE | 54.8 | 52.0 | 49.2 | 38.7 | 32.2 |
| FEMALE | 61.2 | 58.5 | 56.2 | 30.9 | 49.3 |
| ECONOMIC DEPENDENCY RATIO | 0.8 | 0.9 | 0.9 | 1.1 | 1.4 |

### INCOME DISTRIBUTION

| PERCENT OF PRIVATE INCOME RECEIVED BY | .. | .. | .. | 22.2 | .. |
| HIGHEST 10% OF HOUSEHOLDS | .. | .. | .. | 48.0 | .. |
| LOWEST 10% OF HOUSEHOLDS | .. | .. | .. | 6.4 | .. |
| LOWEST 40% OF HOUSEHOLDS | .. | .. | .. | 15.3 | .. |

### POVERTY TARGET GROUPS

| ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (USS PER CAPITAL) | .. | .. | 400.0 /% | 188.6 | 288.2 |
| ESTIMATED RELATIVE POVERTY INCOME LEVEL (USS PER CAPITAL) | .. | .. | 275.0 /% | 152.0 | 184.0 |
| ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%) | .. | .. | .. | 17.3 | 322.8 |
| ESTIMATED POP. BELOW RELATIVE POVERTY INCOME LEVEL (%) | .. | .. | .. | 164.6 | 372.4 |

### NOTES

- The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

JUNE, 1984
ANNEX I

Page 3 of 5


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# COUNTRY DATA - PAPUA NEW GUINEA /a

## GROSS NATIONAL PRODUCT IN 1982
(in at current prices)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP at Market Prices</td>
<td>2,280.8</td>
<td>100</td>
<td>6.5/b</td>
<td>2.7/b</td>
<td>1.7/b</td>
</tr>
<tr>
<td>Gross Domestic Investment</td>
<td>686.4</td>
<td>30.1</td>
<td>19.2</td>
<td>5.6</td>
<td>5.3</td>
</tr>
<tr>
<td>Gross National Saving</td>
<td>199.5</td>
<td>8.7</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>-486.9</td>
<td>-21.4</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Exports of Goods, NFS</td>
<td>863.6</td>
<td>37.9</td>
<td>9.9</td>
<td>18.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Imports of Goods, NFS</td>
<td>1,395.3</td>
<td>61.2</td>
<td>16.5</td>
<td>2.7</td>
<td>3.0</td>
</tr>
</tbody>
</table>

## OUTPUT, EMPLOYMENT AND PRODUCTIVITY IN 1979

<table>
<thead>
<tr>
<th></th>
<th>Value Added /c</th>
<th>Employment</th>
<th>Value Added per Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ mln</td>
<td>%</td>
<td>Employment</td>
</tr>
<tr>
<td>Agriculture</td>
<td>659.4</td>
<td>32.1</td>
<td>996</td>
</tr>
<tr>
<td>Industry</td>
<td>699.0</td>
<td>34.1</td>
<td>27</td>
</tr>
<tr>
<td>Services</td>
<td>696.3</td>
<td>33.9</td>
<td>114</td>
</tr>
<tr>
<td>Total/Average</td>
<td>2,054.7</td>
<td>100.0</td>
<td>1,137</td>
</tr>
</tbody>
</table>

## GOVERNMENT FINANCE

<table>
<thead>
<tr>
<th></th>
<th>Central Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>K million</td>
</tr>
<tr>
<td>Current Domestic Receipts</td>
<td>425.2</td>
</tr>
<tr>
<td>Current Expenditures</td>
<td>587.5</td>
</tr>
<tr>
<td>Current Deficit</td>
<td>162.3</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>121.5/d</td>
</tr>
<tr>
<td>External Assistance (net)</td>
<td>213.2</td>
</tr>
</tbody>
</table>

/a As of January 1, 1978, PNG changed its fiscal year from July 1 - June 30 to January 1 - December 31. All data have been adjusted to a calendar year basis.
/b Growth rates are calculated in line at end-points.
/c At factor cost. These figures are for 1981.
/d These include capital transfers to provincial governments and to public enterprises.

.. not applicable
.. not available

May 1984
COUNTRY DATA – PAPUA NEW GUINEA

MONEY, CREDIT AND PRICES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Million K outstanding at end of period)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money and Quasi Money</td>
<td>649</td>
<td>571</td>
<td>553</td>
<td>554</td>
<td>567</td>
<td>649</td>
</tr>
<tr>
<td>Bank Credit to Public Sector, net</td>
<td>13.5</td>
<td>35.0</td>
<td>8.1</td>
<td>43.4</td>
<td>71.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Bank Credit to Private Sector, net</td>
<td>193.8</td>
<td>229.0</td>
<td>303.9</td>
<td>342.6</td>
<td>373.2</td>
<td>449.0</td>
</tr>
</tbody>
</table>

(Percentages or Index Numbers)

| Money and Quasi Money as % of GDP | 31.4 | 35.3 | 31.9 | 33.5 | 32.5 | 32.5 |
| Consumer Price Index (1977 = 100) | 109.0| 117.6| 131.4| 138.7| 148.3| 160.9|
| Annual Percentage Change in: |      |      |      |      |      |      |
| Consumer Price Index | 5.8  | 5.8  | 8.0  | 5.5  | 6.9  | 8.5  |
| Bank Credit to Private Sector | 41.8 | 18.2 | 11.7 | 12.7 | 8.9  | 20.3 |

BALANCE OF PAYMENTS

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1982</th>
<th>1983</th>
<th></th>
<th>US$ mln</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports of Goods, NFS</td>
<td>875.0</td>
<td>863.6</td>
<td>918.2</td>
<td>Coffee</td>
<td>126.7</td>
<td>14.6</td>
</tr>
<tr>
<td>Imports of Goods, NFS</td>
<td>1,237.0</td>
<td>1,395.3</td>
<td>1,367.0</td>
<td>Cocoa</td>
<td>53.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Resource Gap (Deficit = -)</td>
<td>-362.0</td>
<td>-531.7</td>
<td>448.8</td>
<td>Copra &amp; Copra Products</td>
<td>48.8</td>
<td>5.6</td>
</tr>
<tr>
<td>Factor Services (net)</td>
<td>-88.6</td>
<td>-93.4</td>
<td>-88.8</td>
<td>Timber &amp; Timber Products</td>
<td>70.8</td>
<td>8.2</td>
</tr>
<tr>
<td>Transfers (net)</td>
<td>190.3</td>
<td>138.2</td>
<td>194.6</td>
<td>Gold</td>
<td>262.3</td>
<td>28.0</td>
</tr>
<tr>
<td>Balance on Current Account</td>
<td>-260.3</td>
<td>-486.9</td>
<td>-343.0</td>
<td>All Other Commodities</td>
<td>133.0</td>
<td>15.3</td>
</tr>
<tr>
<td>Private Capital (net)</td>
<td>155.7</td>
<td>378.3</td>
<td>271.0</td>
<td>Total</td>
<td>866.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Public MTL Loans (net)</td>
<td>137.9</td>
<td>101.7</td>
<td>130.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Errors and Omissions /a</td>
<td>4.0</td>
<td>-32.6</td>
<td>22.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in Reserves</td>
<td>-37.3</td>
<td>-40.7</td>
<td>96.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports of Fuel and Related Materials</td>
<td>235.2</td>
<td>198.1</td>
<td>181.3</td>
<td>Public Debt, incl. Guaranteed</td>
<td>748.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Nonguaranteed Private Debt</td>
<td>545.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total Outstanding &amp; Disbursed</td>
<td>1,293.7</td>
<td></td>
</tr>
</tbody>
</table>

EXTERNAL DEBT, DECEMBER 31, 1982

<table>
<thead>
<tr>
<th></th>
<th>US$ mln</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Debt, incl. Guaranteed</td>
<td>748.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonguaranteed Private Debt</td>
<td>545.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Outstanding &amp; Disbursed</td>
<td>1,293.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

RATE OF EXCHANGE

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US$1.00 = K 0.71</td>
<td>US$1.00 = K 0.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>K 1.00 = US$1.41</td>
<td>K 1.00 = US$1.49</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PUBLIC DEBT SERVICE RATIO FOR 1982 /b

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Debt, incl. Guaranteed</td>
<td>7.5</td>
</tr>
<tr>
<td>Nonguaranteed Private Debt</td>
<td>7.7</td>
</tr>
<tr>
<td>Total Outstanding &amp; Disbursed</td>
<td>15.2</td>
</tr>
</tbody>
</table>

IBRD/IDA LENDING (AS OF 9/30/84)

<table>
<thead>
<tr>
<th></th>
<th>IBRD</th>
<th>IDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding &amp; Disbursed</td>
<td>66.14</td>
<td>.104.29</td>
</tr>
<tr>
<td>Undisbursed</td>
<td>107.46</td>
<td>9.31</td>
</tr>
<tr>
<td>Outstanding incl. Undisb.</td>
<td>173.60</td>
<td>113.60</td>
</tr>
</tbody>
</table>

/a Including capital n.e.i.
/b Ratio of debt service to exports of goods and nonfactor services.
.. Not available.

September 1984
## THE STATUS OF BANK GROUP OPERATIONS IN PNG

### A. STATEMENT OF BANK LOANS AND IDA CREDITS /a

(As of September 30, 1984)

<table>
<thead>
<tr>
<th>Number</th>
<th>Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Bank</th>
<th>IDA</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1333-PNG</td>
<td>1976</td>
<td>PNG</td>
<td>Agriculture</td>
<td>12.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>841-PNG</td>
<td>1978</td>
<td>PNG</td>
<td>Rural Development</td>
<td></td>
<td>20.0</td>
<td>4.05</td>
</tr>
<tr>
<td>1856-PNG</td>
<td>1980</td>
<td>PNG</td>
<td>Third Highways</td>
<td>17.0</td>
<td></td>
<td>0.84</td>
</tr>
<tr>
<td>1934-PNG</td>
<td>1981</td>
<td>PNG</td>
<td>Primary Education</td>
<td>6.0</td>
<td></td>
<td>5.97</td>
</tr>
<tr>
<td>1087-PNG</td>
<td>1981</td>
<td>PNG</td>
<td>Primary Education</td>
<td></td>
<td>12.0</td>
<td>2.38</td>
</tr>
<tr>
<td>1149-PNG</td>
<td>1981</td>
<td>PNG</td>
<td>Second Agric. Credit</td>
<td></td>
<td>15.0</td>
<td>1.16</td>
</tr>
<tr>
<td>2125-PNG</td>
<td>1982</td>
<td>PNG</td>
<td>Enga Provincial Dev.</td>
<td>6.0</td>
<td></td>
<td>5.83</td>
</tr>
<tr>
<td>1279-PNG</td>
<td>1983</td>
<td>PNG</td>
<td>Petroleum Tech. Assis.</td>
<td></td>
<td>3.0</td>
<td>1.72</td>
</tr>
<tr>
<td>2265-PNG</td>
<td>1983</td>
<td>PNG</td>
<td>Road Improvement</td>
<td>31.0</td>
<td></td>
<td>29.71</td>
</tr>
<tr>
<td>2276-PNG</td>
<td>1983</td>
<td>PNG</td>
<td>Agric. Support Serv.</td>
<td>14.1</td>
<td></td>
<td>13.95</td>
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<tr>
<td>2395-PNG</td>
<td>1984</td>
<td>PNG</td>
<td>Secondary Education</td>
<td>49.3</td>
<td></td>
<td>49.30</td>
</tr>
</tbody>
</table>

Total of which has been repaid: 20.3
Total now outstanding /f: 173.6

Amount sold: 8.1

Repaid: 8.1

Total now held by Bank and IDA: 173.6

Total undisbursed: 173.6

### B. STATEMENT OF IFC INVESTMENTS

None

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/a The status of the projects listed in Part A is described in a separate report on all Bank/IDA financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

/b Credit amount is SDR 9.4 million (equivalent of US$12.0 million at time of commitment).

/c Amount expressed here is US$ equivalent of undisbursed SDR amount in terms of US$ commitment.

/d Credit amount is SDR 12.3 million (equivalent of US$15.0 million at time of commitment).

/e Credit amount is SDR 2.7 million (equivalent of US$3.0 million at time of commitment).

/f As of August 31, 1984.
Section I: Timetable of Key Events

Time taken by the country to prepare the project: Two years
Project preparation agency: Provincial Government/ National Planning Office
First presentation of project to the Bank: August 1983
Departure of appraisal mission: November 1983
Completion of negotiations: August 1984
Planned date of effectiveness: February 1985

Section II: Special Bank Implementation Actions

None.

Section III: Special Conditions

(a) Conditions of Effectiveness

(i) that offers of employment have been extended to seven persons to fill key positions (para. 66); and

(ii) that the four national positions have been advertised in the government gazette (para. 66).

(b) Other Conditions

The Government would ensure that:

(i) provincial and local roads improved or upgraded under the project, would be adequately maintained (para. 49);

(ii) before initiating the central community school subproject (para. 51) and any subprojects costing more than $75,000 to be added to the project during implementation (para. 55), these would be approved by the Bank;

(iii) prior to their initiation, the scope and cost of the investment studies (para. 48) and the LDP studies (para. 56) would be submitted to the Bank for comments;
(iv) by December 31, 1985 and December 31, 1988, respectively, the Staff Development Unit would prepare a preliminary report and a final report on a staff training program (para. 54);

(v) the project would be carried out in accordance with agreed implementation and recruitment schedules (para. 57);

(vi) quarterly progress reports and an annual summary report of the national government review team would be submitted annually to the Bank (para. 67); and

(vii) a baseline survey would be completed and a data gathering and evaluation system established by June 30, 1986 (para. 68).

(c) Retroactive Financing

Retroactive financing of up to $400,000 is proposed for eligible project expenditures made after March 31, 1984 (para. 59).
PAPUA NEW GUINEA
PROVINCIAL DEVELOPMENT PROJECT
WEST SEPIK PROVINCE

Agriculture