Papua New Guinea - Country Assistance Strategy

On behalf of my PNG authorities, I thank Bank Management for this thoughtful and balanced Country Assistance Strategy (CAS). I also thank the authors of the OED Country Assistance Evaluation report that was discussed at last week's CODE meeting; it provides an important building block for our consideration of the Bank's future engagement with PNG.

As I indicated during my statement at last week's CODE meeting, PNG faces enormous development challenges. Some of the most rugged and remote geography in the world has impeded communications within the country, so that culture and loyalties tend to be highly localised and there are over 800 languages spoken by a population of 4 million. The vast majority of the people live in remote villages and depend on subsistence hunting, fishing and crop gathering lifestyles that have changed little since prehistoric times. PNG has maintained a vibrant parliamentary system of government but its enormous cultural diversity has constrained the development of national institutions and policies. It needs a great deal of help in facing the challenges ahead.

PNG has suffered over recent years from a series of external shocks and natural calamities, including a sharp drop off in demand for logs and other key exports due to the Asian crisis, a prolonged drought which affected substantial parts of the country, volcanic eruptions which severely damaged the provincial capital of Rabaul, and a devastating tsunami which hit coastal areas of West Sepik province. These have been exacerbated by political instability and a separatist insurgency in Bougainville. The experience with past Bank programs need to be assessed against this background.

The Bank's relationship with PNG over the course of the last decade has been a difficult one, although the difficulties have not been unique but reflect problems the Bank experienced in many other countries over the same period. Both the Bank and the Government have learnt from this
experience: in particular, the crucial importance of ensuring Government ownership of the reform agenda and the underlying need to address governance issues and institutional capacity building.

A New Reform Program

These lessons are reflected in the proposed CAS, which represents a markedly different approach to that taken by the Bank in the past. They have also been taken to heart by the new Government headed by Sir Mekere Morauta, a former Central Bank Governor, which came to office in July this year. While many of the structural and institutional weaknesses remain, the new Government and Prime Minister are committed to reform and to working with the IMF and Bank towards this end. As evidenced by the election results, there is also a strong groundswell of public acceptance of the need for, and importance of, reform.

Since taking office, the Government has taken a number of concrete steps in support of the reform program.

Management of the Reform Process: The Government has established a top level Committee of Central Agencies to oversee and manage the structural reform program. The Committee comprises the heads of the four central planning and coordination departments.

Governance: The newly created Constitutional Development Commission (CDC) is working on a draft bill on the integrity of Political Parties and Candidates, which will be introduced in the forthcoming Parliamentary Session. The new bill is intended to provide stability and transparency in government. The Rural Development Fund, which had attracted particular criticism on governance grounds, is being replaced by new arrangements including a District Development Program, for which the Prime Minister has requested the Bank's assistance in designing an improved accountability and transparency mechanism.

Public Sector Reform: The Government will be undertaking a review to assess the impact of public expenditure on development objectives and their consistency with stated development priorities. A review will also be conducted on the public sector's organisational systems and structures which is aimed at streamlining functions, enhancing performance and strengthening management systems. It is expected that these reviews will be supported by the Asian Development Bank and the World Bank.

Financial sector: In order to strengthen the Central Bank's independence, credibility, authority and stability, a proposed amendment of the current Act, and new legislation to improve supervisory powers in the banking sector and other financial institutions, have been drafted and await parliamentary approval.

Privatization: A privatization commission headed by former founding central bank governor and now businessman, Sir Henry To Robert, has been established to plan and oversee the privatisation of government-owned corporations.
Value Added Tax: Introduced by the previous government but continued to be supported by the new Government despite strong opposition from certain sectors of the community including trade unions. The new tax is beneficial both in expanding the tax base and as a revenue mechanism for the national and local level governments.

Taxation Review: A major tax review has commenced headed by Sir Nagora Bogan, former Internal Revenue Commissioner and current Ambassador to the United States. The objective of the review is to provide the Government with specific recommendations for the formulation and administration of a tax policy which will assist in the long-term economic and social development of Papua New Guinea; and a tax system that will provide a fair, efficient and secure source of tax revenue for the government.

Forestry: The Government is introducing a moratorium on all new forestry licences, extensions and conversions, and is proceeding with a review of all existing licences to ensure that proper procedures are followed, that logging practices are not carried out in an unsustainable manner, and that landowners receive their fair share of benefits from resource use.

Year 2000 Budget: On 30 November, the Prime Minister, who is also the Minister for Treasury and Finance, tabled in Parliament his new Government's Kina 3.95 billion budget for year 2000. The budget was passed by Parliament on December 7. It is a balanced budget designed to support and strengthen key areas including:

- good governance and state institutions;
- macro-economic financial and budget stability;
- public sector reform and performance; and
- removal of the obstacles to economic growth.

Relations with the IMF

Relations with the IMF have also been revived under the new Government. A Fund team is now in PNG to finalise agreement on a Letter of Intent ad referendum at the mission level. Subject to the satisfactory completion and senior management approval of the Letter of Intent, the staff report recommending a Fund program to PNG is likely to come to the Fund Board early in the new year.

The Bank's Role

I support the argument in the CAS that there is a need for continued active Bank involvement in PNG. While the Bank will not be the major provider of development finance in PNG, it does bring expertise and a neutrality which allows it to engage the PNG Government in dialogue on structural reform issues. Other donors, including the major donors like Australia, the EU and Japan, also look to the Bank to play this role as evidenced by their joint undertaking at the recent Consultative Group meeting to link consideration of further
assistance to the successful negotiation of a Fund and Bank program.

Aside from this key role, the Bank can also bring to bear experience and expertise to:

- strengthen the capacity of the central planning and financial institutions;
- build a sense of national identity and common purpose;
- strengthen the skill base and service delivery capacity of the public sector; and
- provide, through IFC and MIGA, a stimulus for private sector development which is necessary to achieve broader based growth.

In view of these needs and the particular role the Bank can sensibly play, I support the approach outlined in the Country Assistance Strategy to balance a modest but strategic investment lending program with structural adjustment lending if performance warrants, together with a bolstered non lending program. I note that the OED evaluation report also supports the strategy.

The Bank will need to continue to adopt a more constructive approach in its relationship with PNG. We have been encouraged by the Bank's willingness in recent years to engage the Government, civil society and the private sector in order to strengthen program ownership. This more pro-active approach will need to continue. In this respect, I support the recent appointment of a country coordinator based in Port Moresby and further welcome the planned decentralisation of the PNG and Pacific Country Management Unit to Sydney next year. These initiatives will strengthen the Bank's responsiveness to PNG and deepen its understanding of a remarkable complex and diverse country.