



THE MEDIUM TERM DEVELOPMENT STRATEGY

2005 – 2010

***“Our Plan for Economic and Social
Advancement”***

NOVEMBER 2004



MEDIUM TERM DEVELOPMENT STRATEGY 2005-2010

The Ten Guiding Principles

1. Private Sector-led Economic Growth

To trigger the private sector, including ordinary Papua New Guineans in rural communities, to become productively engaged in growing the economy, by harnessing the entrepreneurial spirit.

2. Resource Mobilisation and Alignment

To mobilise and align land, labour and financial resources to support priority development programs and activities.

3. Improvements in the Quality of Life

To translate the gains from economic growth into higher living standards for all Papua New Guineans.

4. Natural Endowments

To maximise the value of our natural resources and environment, through sustainable primary production and downstream processing, with a focus on agriculture, forestry, fisheries and tourism supported by mining, petroleum and gas.

5. Competitive Advantage and the Global Market

To focus interventions on resources, products and commodities in which Papua New Guinea enjoys a competitive advantage in global markets.

6. Integrating the Three Tiers of Government

To closely integrate the national, provincial and local level governments to support the implementation of the MTDS.

7. Partnership through Strategic Alliances

To enhance strategic alliances between key partners, including the private sector, donors, churches and community-based organisations, to deliver the MTDS.

8. Least Developed Areas Intervention

To facilitate strategic impact project interventions in least developed districts and provinces with a particular focus on the 'poverty corridor'.

9. Empowering Papua New Guineans and Improving Skills

To help Papua New Guineans to help themselves through improving access to basic health and education services, information, markets and appropriate technology, with a special focus on the needs of those in the informal sector.

10. 'Sweat Equity' and Papua New Guinean Character

To encourage and assist Papua New Guineans to contribute to national development by investing 'sweat equity', consistent with our noble virtues and traditions.

THE MEDIUM TERM DEVELOPMENT STRATEGY 2005 – 2010

A. Role of the MTDS

First, to articulate an overarching development strategy that will provide the guiding framework for prioritizing the Government's expenditure program, as expressed in the annual budget. The development strategy has been based on the Government's Program for Recovery and Development, which comprises good governance; export-driven economic growth; and rural development, poverty reduction and empowerment through human resource development.

Second, to identify, in broad terms, the wider policy framework that will help strengthen the enabling environment for the Program for Recovery and Development.

Third, to improve fiscal governance by strengthening PNG's Public Expenditure Management (PEM) system. The three key elements of effective PEM are fiscal sustainability, the strategic prioritisation of financial resources and cost-effective implementation of programs.

B. The Overarching Development Strategy 2005-2010

For the period 2005-2010, the overarching development strategy is defined as export-driven economic growth, rural development and poverty reduction, including through good governance and the promotion of agriculture, forestry, fisheries and tourism on a sustainable basis. The strategy will be realized by empowering Papua New Guineans, especially those in rural areas, to mobilize their own resources for higher living standards.

C. Expenditure Priorities 2005 - 2010

Based on the development strategy, and consistent with the requirement to empower Papua New Guineans to drive the development process, the mutually supporting expenditure priorities under the MTDS are:

- Rehabilitation and Maintenance of Transport Infrastructure.
- Promotion of Income Earning Opportunities.
- Basic Education.
- Development-oriented Informal Adult Education.
- Primary Health Care.
- HIV-AIDS prevention.
- Law and Justice.

FOREWORD

“Nations are not developed by governments alone. Rather, the role of government is to empower its people to mobilize their own resources, their sweat and labour, for effective development.”

Hon. Sir Moi Avei, KBE, MP, Minister for National Planning and Monitoring
Statement to Parliament on the 2005 National Budget.

Since Independence, successive governments have prepared many worthy development plans and strategies that have promised to realise our national vision, as enshrined in our Constitution. While the plans and strategies were often soundly based, they have not been translated into results on the ground, and as a consequence, our nation is well short of achieving the national vision. In real terms, the plans of the past represent little more than an historical record of good intentions.

Our previous development strategy, which covered the period 1997-2002, is one such statement of good intentions. Its objectives were laudable but they failed to materialise. While external events, such as the 1997 drought and the East Asian economic crisis impacted adversely on the implementation of the strategy, the primary responsibility for its failure must be attributed to domestic factors.

For the first few years of the strategy, political and policy instability deterred investors and undermined our systems of governance. Periods of fiscal mismanagement also fueled macroeconomic pressures and diverted resources away from the development priorities. Ownership of the strategy was weak and the political will to ensure its implementation was lacking. The strategy itself did not address the public sector's inadequate implementation and administrative capacity, which had been further eroded by the reforms to our system of decentralised government.

Over the period 1997-2002, our economy contracted in real terms and service delivery deteriorated. We entered the new Millennium with declining levels of household income and social indicators that were poor by regional standards. For a country with abundant natural resources and blessed by a resilient and talented people, we cannot accept this record. Our Government has a moral and legal duty to perform better, much better.

The necessity to address these issues lies at the heart of the new Medium Term Development Strategy (MTDS), which covers the period 2005 to 2010. The strategy has been based firmly on the Somare Government's Program for Recovery and Development, and its three interrelated objectives of good governance; export-driven economic growth; and rural development, poverty reduction and empowerment through human resource development.

To ensure strong ownership, the MTDS is the product of extensive consultation with the provincial and local level governments, the private sector, community organisations and ordinary Papua New Guineans. The consultations demonstrated strong support for the Program for Recovery and Development and guided the design of the MTDS expenditure priorities, supporting policy framework and implementation mechanisms.

The MTDS underlines the importance of good governance and public sector reform. Good governance, credible and stable policies, are fundamental conditions for private sector growth. The public sector reform program will

impart a clear sense of direction on our public service, reduce the cost of government, improve accountability and enhance the efficiency of service delivery. Fiscal governance will be improved by strengthening PNG's public expenditure management system. Under the MTDS, the Government's expenditure program will be driven by the development strategy. As well, the ongoing affordability of programs will be ensured by the application of the hard budget constraint derived from the Medium Term Fiscal Strategy.

The MTDS recognises that, as a nation, we can no longer ignore the dysfunctional system of service delivery that has arisen following the 1995 reforms to our system of decentralised government. Under the MTDS, there will be a renewed emphasis on the need to identify practical solutions to address the current constraints to service delivery.

A development strategy is only as good as the political will and capacity to implement it. By entering into strategic partnerships with key stakeholders, implementation and ownership will be strengthened. The partnership with the decentralised governments will be crucial. Given that governments at all levels face financial and capacity constraints, our goals will only be achieved if we pool our resources and work together.

The renewed National Development Charter will underpin the partnership with provincial and local level governments, and districts administrations. Through the Charter, the National Government and the decentralised governments will work together by pooling funds under the Kina-for-Kina principle, to finance priority activities. The District Roads Improvement Program has been introduced as a Charter initiative in 2005 and similar programs will be designed for health and education. The capacity of provincial governments will be improved through the introduction of the Provincial Performance Improvement Initiative and the Provincial Services Cadetship Program. The cadetship is a major initiative to support tertiary students who aspire to a career in District and Provincial Administration.

For 2005 to 2010, the objectives of the MTDS are export-driven growth and social development. The focus on export-driven growth recognises the unlimited opportunities of the global market. Our resources are highly prized and we should aim to be a regional, or even world leader in the export of tuna, oil palm, rubber and fruit and vegetables. Our farmers are also well placed to exploit the global market for organically grown produce.

If our nation is to take full advantage of global opportunities we must focus on our areas of competitive strength, embrace international best practice and develop our manpower skills. Our traditional competitive strengths lie in agriculture, forestry and fisheries, together with mining and petroleum. Our emerging areas of strength are manufacturing, downstream processing, tourism and gas. While agriculture will remain the mainstay of the economy for decades to come, under the MTDS the Government will put in place the foundation stones to foster the development of our emerging industries.

In manufacturing, the Government will capitalise on our competitive exchange rate and wage levels, and abundant raw materials, by addressing the impediments faced by foreign investors and local entrepreneurs alike. We will promote the development of industrial parks as a one-stop, packaged facility for manufacturers and value-adding, downstream processors. We will seek to attract labour-intensive industries, including

additional tuna canneries, and assembly plants that can service the Australasia automotive, electronic and computer industries.

In 2004, there was a major advance in the PNG-Australia gas pipeline project, which confirmed the return of investor confidence in our resource sector. Gas has the potential to become our most valuable resource and under the MTDS, the Government will also promote a northern pipeline to supply our first Liquid Natural Gas facility. As well, an auxiliary pipeline into the national capital will boost the commercialisation of our gas. Together with our industrial parks program, the supply of a cost-effective energy source will provide a substantial boost to our manufacturers.

The philosophy underpinning the MTDS is that government alone cannot generate higher incomes and living standards. Rather, higher incomes are generated through the efforts of Papua New Guineans. In agriculture, which supports over 80 per cent of our people, higher incomes are derived from people working their land and applying their labour. The role of government is to facilitate the growth in incomes, including by creating the enabling environment that will increase the rewards for productive effort.

Under the MTDS, the rewards for productive effort will be increased by fixing the transport network, strengthening law and justice, facilitating the expansion of telecommunications, and by directly promoting income-earning opportunities. As well, Papua New Guineans will be empowered to participate more effectively in the market economy through the provision of basic education, development-oriented adult education and primary health care. In this regard, it is important to observe that economic growth and social development are mutually supporting objectives. The social infrastructure of our nation will be strengthened further through a greater policy focus on children, youth, women and the disabled.

The MTDS will address the new threats to our development prospects. Foremost is the HIV/AIDS epidemic, which will have catastrophic consequences unless arrested. We will address our high population growth rate that is placing our education and health services under further pressure. We will develop culturally acceptable policies to allow our land to be utilised more effectively for economic activities. We will also address unplanned urbanisation and the blight of urban settlements. Expanding opportunities in rural areas will reduce the pressure for urban migration, and by fostering the informal economy, we will assist urban settlers to lift themselves out of poverty. In 2005, our National Urbanisation Policy will be launched as the blue-print for addressing these issues.

As I have already outlined, as a nation we have made our share of mistakes. The true test of the quality of a nation, however, is its ability to learn from its past and to move forward in a positive and confident fashion. Our new MTDS is, indeed, our roadmap for the journey that lies ahead.

I have pleasure in dedicating the MTDS to the people of Papua New Guinea, the sons and daughters of our soil.

Hon. Sir Moi Avei, KBE, MP
Acting Minister for National Planning and Monitoring.

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EXECUTIVE SUMMARY

Chapter One: Introduction and Role of the MTDS 2005-2010

The Medium Term Development Strategy (MTDS), which will cover the period 2005 to 2010, is PNG's overarching plan for economic and social development. The three functional roles of the MTDS are to articulate a core development strategy that provides the guiding framework for the Government's expenditure program; to identify the supporting policy framework that will help put in place the enabling conditions for recovery and development; and to strengthen PNG's Public Expenditure Management system. The goal of the MTDS is to foster sustainable improvements in the quality of life of all Papua New Guineans.

For the first 10 to 15 years of Independence, Papua New Guinea achieved reasonable progress against key economic and social indicators. Since then, progress against social indicators has slowed considerably and the quality of economic management has deteriorated. It is widely acknowledged that the deterioration in economic management in the 1990s was a symptom of a wider deterioration in the quality of governance.

PNG's previous MTDS (1997 – 2002) attempted to put in place a strategy that would address this record and promote stronger economic growth and social development. While the strategy was considered to be sound, it did not achieve its objectives. Although external factors contributed to this outcome, domestic issues, such as political instability and poor fiscal management, were also important. The MTDS suffered from a lack of political ownership and its policies were not vigorously implemented. Implementation at the provincial, district and local level was further weakened by the problems associated with the 1995 reforms to PNG's system of decentralised government.

The MTDS 2005-2010 is based firmly on the Government's Program for Recovery and Development, and its three objectives of good governance; export-driven economic growth; and rural development, poverty reduction and empowerment through human resource development. An extensive consultative process with stakeholders was also undertaken to help ensure widespread ownership of the strategy. Following the consultative process, the MTDS's Ten Guiding Principles were drafted to reflect the shared goals, values and aspirations of Papua New Guineans.

Papua New Guinea confronts many constraints that impede effective growth and development. These constraints, such as poor infrastructure, have been recognised by successive governments since Independence and continue to be a key focus of the MTDS. In recent years, however, there has been an increasing focus on other issues that have emerged as serious threats to development. These threats, which will receive a greater focus under the new MTDS, are HIV/AIDS, high population growth, unplanned urbanisation, dysfunctional service delivery systems, and the impediments to land utilisation.

Chapter Two: MTDS 2005-2010 - Key Objectives

Central to the MTDS is the promotion of robust and broad-based economic growth. In this regard, the strategy will be based on the country's competitive advantages. It will have a particular focus on agriculture, forestry, fisheries and tourism, and will be supported by mining, petroleum, gas and manufacturing. By promoting these sectors, the PNG economy should be able to grow by 5 per cent annually in real terms towards the end of the period 2005-2010.

The new MTDS will not only target economic growth, it will specifically target 'quality' economic growth. Quality economic growth means that every Papua New Guinean will be able to benefit from expanded economic activity. It will be based on the principle of participation, with ordinary Papua New Guineans encouraged to drive economic growth through the utilisation of their own resources.

First and foremost among the Government's priorities to promote economic growth is the primary sector, comprising agriculture, forestry and fisheries. In this sector, the MTDS will empower smallholders to mobilise their own resources for higher incomes. The self-interest of smallholders will be motivated by creating an enabling environment that will deliver higher rewards for productive effort.

By focusing on the opportunities in the global market, Papua New Guinea should aim to be the world's tuna capital, a leading exporter of palm oil and rubber, and a major regional supplier of fruit and vegetables. In order to capitalise on global opportunities, Papua New Guinea will need to adopt international best practices, including in relation to quality control standards. Papua New Guinea is also well placed to capitalise on international demand for organically grown produce.

Papua New Guinea is host to the world's second largest tropical rainforest. With ecologically sustainable management, PNG's forestry endowments will provide benefits to both the economy and local communities over the long term. PNG's economic exclusion zone encompasses a rich tuna resource and around 20 per cent of the population engage in fishing for subsistence requirements. In recent years, the fisheries sector has experienced strong growth, and under the MTDS, the Government will build on this strength, including by increasing the level of local participation in the industry.

Given PNG's natural beauty and cultural diversity, the potential for tourism is considerable. In niche markets such as diving, trekking, and village-based tourism, Papua New Guinea has the potential to be a world leader. In order to promote the tourism industry, the Government will carefully examine options for providing tax concessions to industry participants.

While PNG's mining and petroleum industry operates as an enclave activity, the sector is a substantial earner of foreign exchange backed revenues for

the Government. These revenues provide the Government with the financial capacity to deliver essential services. In recognition of its essential role in contributing to the objectives of the MTDS, the Government is committed to further strengthening confidence in the sector.

The decision to commence the Front-End Engineering Design for the PNG-Australia pipeline is a major advance for this critical project and a concrete signal of a strengthening in investor sentiment. Gas has the potential to become PNG's most valuable natural resource and the Government will also promote the development of a northern gas pipeline to supply a Liquid Natural Gas facility in Wewak.

There is enormous potential to commercialise gas for the domestic market. Through the construction of an auxiliary pipeline, the PNG-Australia pipeline project provides the opportunity to introduce a highly competitive energy source to the National Capital District (NCD). This pipeline, combined with an integrated industrial park program, will provide a major boost to the manufacturing sector in the NCD.

Over the medium term, the Government will seek to increase the value of exports produced by PNG's manufacturers, including by promoting downstream processing of raw materials. Papua New Guinea is strategically located in the fast growing Australasia region and new export opportunities are always emerging. To further improve the operating environment for manufacturing, the Government will consider tax incentives for new operations. The Government will also promote the development of industrial parks in key economic regions, including the NCD.

If Papua New Guinea is to successfully integrate into the global economy, as well as to attract manufacturing industries, the country's skill base and productivity levels will need to improve. In order to address these issues, preparatory work will commence on a manpower plan in 2005.

While the majority of Papua New Guineans depend on semi-subsistence agriculture for their livelihood, there are increasing numbers of people who earn a living from operating small-scale informal businesses in urban areas. Nonetheless, the potential of the informal economy to contribute to economic growth has been neglected. In recognition of this potential, the Government is committed to addressing the obstacles to the development of the informal sector. The new informal sector legislation passed in 2003 is a significant step towards this goal.

In order to implement the Program for Recovery and Development, the MTDS will also directly improve the lives of ordinary Papua New Guineans by developing the nation's social infrastructure. PNG's efforts to achieve the Millennium Development Goals, such as improved functional literacy rates, can be best achieved by strengthening policies on human resource development. This will require increasing access to formal health and

education services, and providing informal learning opportunities in partnership with civil society organisations.

While basic education will be the foremost priority of the Government over the medium term, the MTDS acknowledges the need to ensure that PNG's brightest and most talented students have the opportunity to receive a quality higher education. As well, the MTDS will also address the requirements of functionally illiterate adults and out-of-school youth, through community based informal education programs.

The provision of primary health care improves the quality of life for Papua New Guineans and leads to a more productive workforce. Under the MTDS, the Government will focus on improving access to primary health care. This will include a particular focus on interventions to overcome the diseases that cause the largest number of deaths; such as malaria, pneumonia, measles, tuberculosis, diarrhoea and anaemia.

While absolute poverty is not a widespread problem, a significant proportion of the population is affected by relative poverty. Poverty is a multi-faceted issue that requires an integrated and cross-sectoral response. Poverty reduction will be addressed by investing in people through education and health, and by promoting broad-based economic growth.

The MTDS recognises that the family and clan form the foundations of Papua New Guinean society. It also recognises the needs of special groups, including women, young persons, and disabled persons. A far greater focus will be placed on these groups, including in the design of sector-specific programs.

The HIV/AIDS epidemic poses a very serious threat to PNG's growth and development prospects. As such, the Government will take every step possible to arrest the epidemic, especially by supporting the multi-sectoral approach of the National AIDS Council.

PNG's high population growth places the Government's service delivery budgets under even greater pressure and undermines the economy's capacity to generate increases in per capita incomes. Under the MTDS, the implementation of the National Population Policy will be strengthened.

Papua New Guinea is experiencing serious problems with the unplanned expansion of its urban environments. Port Moresby and Lae are the gateway to foreign investors and tourists alike, and the squalor and crime associated with their squatter settlements impacts adversely on the image of the country as a whole.

Under the MTDS the principal means for addressing unplanned urbanisation is to reduce the flow of rural migrants to urban centres by improving living standards in rural areas. The Government will also address the problems within squatter settlements. It will assist those living in urban settlements to

lift themselves out of poverty by improving basic services such as water and electricity, and by providing adult education. These issues will be addressed under the Government's National Urbanisation Policy.

The Government's objective to promote economic growth and development will be greatly assisted by a vastly improved telecommunications network and a program to bridge the digital divide that is limiting the opportunities for ordinary Papua New Guineans. For example, farmers could keep abreast of market intelligence and receive extension advice through an 'e-agriculture' service, while 'e-education' services could deliver lessons to students in remote locations. The Government will foster the expansion of a nation-wide telecommunications system through the development of a sound policy, regulatory and institutional framework.

Chapter Three: Achieving the MTDS Objectives: Expenditure Priorities and Supporting Policies.

By strategically prioritising its available resources, the Government will have the maximum impact on its development objectives. The MTDS will help to ensure this outcome by strengthening the link between the Government's development goals, the sectoral expenditure priorities and the actual expenditure programs. In this regard, the development strategy will drive the budgetary process.

Based on the Government's Program for Recovery and Development, the sectoral expenditure priorities for 2005 to 2010 have been identified as:

- Rehabilitation and maintenance of transport infrastructure;
- Promotion of income-earning opportunities;
- Basic education;
- Development-oriented informal adult education;
- Primary health care;
- HIV/AIDS prevention; and
- Law and Justice.

Rehabilitation and maintenance of PNG's transport system will enable produce to be moved to markets and goods and services to be delivered to village communities. Programs that target income-earning opportunities, such as micro-credit facilities and agricultural extension, will contribute to economic growth and improve the incomes of ordinary Papua New Guineans. Basic education and primary health care are fundamental to the welfare of Papua New Guineans and for the promotion of economic growth. Development-oriented informal adult education will address the needs of the 50 per cent of adults who are functionally illiterate. Law and justice are essential conditions for a market economy.

Under the MTDS, the Government will seek to increase the level of expenditure on these priority areas by redirecting funds from lower priority

activities, and by improving the cost-effectiveness of service delivery across all levels of government.

In addition to guiding the allocation of resources in the annual budget, the MTDS will also provide the guiding framework for the design of a supporting policy environment that will help promote recovery and development. In broad terms, supporting policies should contribute to the following:

- Political and policy stability;
- The rule of law;
- Macroeconomic stability;
- An outward-looking, market-friendly and transparent trade and investment regime;
- International competitiveness;
- Land reform;
- Protection of the vulnerable and disadvantaged;
- Gender equality; and
- Protection of the natural environment.

In 2005, Papua New Guinea's existing sectoral and supporting policies will be reviewed to ensure that they are consistent with the Program for Recovery and Development and the MTDS.

Chapter Four: Strategic Alliances and Implementation Mechanisms.

One of the key reasons for the poor performance of the MTDS 1997-2002 was weak ownership of the strategy by key stakeholders. To help strengthen ownership, the new MTDS is the product of extensive consultation. Ownership and implementation will be further improved by developing strategic alliances and partnerships with key stakeholders, and by adopting implementation mechanisms that seek to improve coordination and cooperation.

Improving the relationship between the three levels of government will be crucial for the effective implementation of the new MTDS. In this regard, there are a number of activities in place that are designed to identify practical solutions to improve the functioning of the decentralised system of government. For example, and with the support of AusAID, the Government has introduced the Provincial Performance Improvement Initiative, which is designed to improve planning, budgeting and implementation capacity at the provincial level.

Strategic alliances will also be strengthened with churches, community based organisations and non-governmental organisations. The Government will ensure that organisations which have a sound track-record of service delivery are provided with adequate funding support. The Government will also rely on ordinary Papua New Guineans to assist in service delivery by contributing their labour and land, including for the construction of school buildings and the maintenance of rural roads.

The MTDS is based on the philosophy that the private sector is the engine of growth. As such, it is vital that the Government maintains a good working relationship with the private sector, including foreign investors. The Consultative Implementation and Monitoring Council is an effective forum for facilitating dialogue and consultation between the Government and the private sector, and for aiding the achievement of the MTDS objectives.

Consistent with the need to foster strategic alliances, the MTDS will restore the National Development Charter as a major delivery mechanism for priority services. A key objective of the charter is to mobilise additional funds for the MTDS priorities, by securing counterpart contributions from funds allocated under the Rural Action Program/District Support Grant.

The District Roads Improvement Programme (DRIP) has been introduced as an initiative under the charter and will be dependent on Members of Parliament and provincial governments contributing towards road projects in their respective district or province. Under the DRIP, these funds will be matched by the Government on a Kina-for-Kina basis. The Government will design similar programs to the DRIP for primary health care and basic education.

As a new intervention to improve the administrative capacity of the provinces and districts, the charter will introduce a cadetship program. Scholarships will be provided to students for relevant areas of study. Upon graduation, the students will be appointed as cadet administrators in the provincial and district administrations.

Chapter Five: Resource Mobilisation, Public Sector Reform and Expenditure Management.

In order for the MTDS to be effective in promoting growth and development, it is important that the priority programs are affordable and sustainable. In this regard, the financing of the MTDS is mapped out in the Medium Term Resource Framework (MTRF). The role of the MTRF is to integrate the 'top-down' resource envelope with the 'bottom-up' sector programs. The 'top-down' resource envelope is determined by the Government's Medium Term Fiscal Strategy (MTFS), which is developed by the Treasury.

Over the medium term, the level of resources available to the Government is forecast to decline marginally in nominal terms. Therefore, it will only be possible to increase funding to the MTDS priorities by identifying savings from non-priority activities and by achieving cost-efficiencies across the board. The two vehicles for achieving these savings are the Government's Public Sector Reform program and the Public Expenditure Review and Rationalisation (PERR) program.

The Government's Public Sector Reform program will play an integral role in the implementation of the MTDS by ensuring that the administrative structure of government conforms to the development priorities. It will reduce the cost of

government, abolish waste and non-priority activities, improve service delivery and strengthen accountability and other systems of good governance.

As a component of the Public Sector Reform program, the PERR will be a key vehicle for generating the savings and cost-efficiencies that will be necessary for increased funding to the MTDS priorities. The PERR is focussed on the four broadly defined themes of fiscal sustainability; expenditure adjustment and prioritisation; civil service size and payroll reform; and restoring the integrity of budget institutions and systems.

The MTDS will also help to strengthen PNG's public expenditure management (PEM) system. Effective PEM encompasses fiscal discipline, the prioritisation of resources, and the cost-effective implementation of programs and projects.

Chapter Six: Monitoring and Evaluation

The monitoring and evaluation of the implementation of priority programs and projects forms an integral element of managing and coordinating the MTDS. It is necessary to ensure that programs and projects are implemented within the planned time period and within budget, and more importantly, that they contribute to the MTDS goals. Through the process of monitoring and evaluation, the Government will better understand the reasons for successes and failures of programs under the MTDS.

Papua New Guinea is committed to the Millennium Development Goals (MDGs), which set the objectives for global development over the period 2000 to 2015. While the timeframe covered by the MDGs is longer than the period of the MTDS, the goals and objectives are consistent. The Government is preparing targets for the MDGs that are specific for Papua New Guinea, and reflect the nation's current stage of development. Once finalised, these longer-term targets will be adopted for the purpose of defining the performance indicators and targets over the period covered by the MTDS. This activity will be completed in 2005, and will be closely monitored and appraised by the Department of National Planning and Rural Development and the Central Agencies Coordination Committee.

All key stakeholders have a role to play in ensuring that the objectives of the MTDS are achieved. National departments and agencies, provincial and local level governments, non-governmental organisations, community based organisations and other stakeholders involved in the implementation of the MTDS, will be required to participate in the process of monitoring and evaluation.

CHAPTER ONE: INTRODUCTION AND ROLE OF THE MTDS

1.1 Background

The Medium Term Development Strategy (MTDS), which will cover the six-year period from 2005 to 2010, is Papua New Guinea's overarching plan for economic and social development. The primary role of the MTDS is to translate the Government's Program for Recovery and Development into a series of broadly defined policy interventions that are soundly based, mutually supporting and affordable. The MTDS will serve as the Government's apex planning, policy and resource allocation framework and, in this regard, it has three functional objectives:

- First, to articulate a core development strategy that provides the guiding framework for the Government's expenditure program, as expressed in the annual budget. The role of the MTDS is to ensure that the annual budget demonstrates a clear link between the Government's development goals, sectoral expenditure priorities, and actual expenditure programs. The MTDS will guide the allocation of resources in both the development and recurrent budgets and help ensure a more disciplined and focussed approach to expenditure decisions.
- Second, to identify, in broad terms, the supporting policy framework that will help put in place the enabling conditions for recovery and development, and strengthen the impact of the Government's expenditure program.
- Third, and as a specific measure to enhance fiscal governance, to strengthen PNG's Public Expenditure Management (PEM) system. The three key elements of effective public expenditure management are fiscal sustainability, the strategic prioritisation of available financial resources, and cost-effective implementation of projects and programs.

The MTDS will provide the framework for linking development goals, through to sectoral priorities and expenditure programs.

As the Government's overarching development strategy, the MTDS provides the strategic or 'high-level' framework for prioritising expenditures and for guiding the design of its other policy interventions. It is important to note that, as a strategic document, it is not the purpose of the MTDS to dictate the details of sectoral plans. Nor does it provide a blueprint for the design of specific expenditure programs or policy regimes. The responsibility for the latter resides

The MTDS is a strategic tool to guide expenditure and policy decisions. Responsibility for the design of specific programs and policies resides with the relevant line departments and agencies.

primarily with the relevant implementing agencies and departments, which possess the appropriate specialist expertise to translate the broadly defined development priorities of the MTDS into detailed sectoral programs and policies.

It is also important to note that at this juncture, the MTDS does not attempt to map out a whole-of-government expenditure program. Rather, as the first step in ensuring that the MTDS drives the Government's budgetary process, the sectoral expenditure allocations identified under the strategy will initially be limited to the core development priorities.

Aside from the sectoral priorities identified under the MTDS, there are of course many other functions of government that must also be funded. These include the administrative costs of the Government's central agencies and outlays on defence. Such expenditures are not, as yet, specifically identified under the MTDS. However, once the MTDS is embedded as a key instrument of public expenditure management, the other activities of government will be more clearly defined and funded explicitly under the strategy. In time, the expenditure program identified under the MTDS will evolve into a 'whole-of-government' expenditure plan.

The MTDS will be reviewed annually, in the context of the annual budget, to accommodate changing circumstances and to ensure that the multi-year expenditure allocations to the priority sectors remain consistent with the Government's Medium Term Fiscal Strategy (MTFS). The MTFS will set the fiscal ceiling for the operations of government for a three-year period. The MTFS is designed to ensure both fiscal sustainability and greater certainty over the availability of financial resources over the medium term. The annual revisions to the MTDS, and to the sectoral expenditure allocations, will be reported in Volume One of the Government's annual budget documents.

1.2 PNG's Economic and Social Development Record

Papua New Guinea is a country rich in natural resources and its people are resilient and resourceful. The country's natural resources include gold, copper, oil, gas, timber and fisheries. PNG's Economic Exclusion Zone of 3.1 million square kilometres is host to an abundant tuna resource, and the country's tropical rainforest is the second largest in the world and is characterised by extraordinary biodiversity.

Papua New Guineans are excellent farmers and the history of cultivation on the island of New Guinea dates back over 7,000 years, ranking it as one of the oldest agricultural societies in recorded history. For the 30 per cent of the country's land mass that is suitable for agriculture, soils are generally fertile and the climate and rainfall is sufficient to support the cultivation of a wide range of crops, both for domestic consumption and

export markets. If carefully administered through improved land management techniques and land reform programs, PNG's agro-ecological attributes could support vigorous growth in agriculture for many decades to come.

Notwithstanding PNG's many positive attributes, the country also faces considerable development challenges. A very rugged topography, a widely dispersed population, small fragmented markets and the country's vulnerability to natural disasters, have all acted to impede effective development. As well, it is widely recognised that at the time of Independence in 1975, the newly formed nation-state of Papua New Guinea was particularly disadvantaged by inadequate physical and social infrastructure, especially in relation to the levels of education. At Independence, government also confronted the not inconsiderable challenge of uniting well over 800 distinct cultural groups.

From a development perspective, Papua New Guinea is disadvantaged by one of the most difficult physical terrains in the world.

For the first 10 to 15 years of Independence, Papua New Guinea achieved reasonable progress against key economic and social indicators. Although economic growth was modest, sound economic management had ensured an impressive period of macroeconomic stability and for much of this period, there had been significant improvements in key social indicators. Life expectancy increased from 40 years in 1971 to nearly 50 years in 1980, while over this period, infant mortality declined from 134 deaths per 1,000 live births to 72 deaths.

Notwithstanding PNG's early achievements, since the mid-1980s progress against a range of social indicators has slowed considerably. As a consequence, and as Papua New Guinea entered the new Millennium, the development challenges remained formidable. Social indicators are among the lowest in the region (Table 1) with a low average life expectancy (54 years), high infant mortality (64 deaths per 1000 live births) and very high maternal mortality (300 deaths per 100,000 births). The high mortality rates reflect premature deaths arising from readily preventable causes. It was also estimated that in 1996, around 38 per cent of PNG's population lived in poverty.

Around 33 infants die each day in Papua New Guinea, the majority from readily preventable causes.

Economic management deteriorated markedly in the 1990s. A breakdown in fiscal discipline and poor expenditure choices resulted in periods of pronounced macroeconomic instability and led to priority development activities, such as road maintenance, being under-funded. In this respect, the 'window of opportunity' provided by a more competitive exchange rate was offset by a deteriorating road network, declining levels of service provision, and increasing levels of crime.

Table 1: Key Social Indicators- Regional Comparison.

	PNG	Fiji	Vanuatu	Samoa
Infant Mortality ¹ (per 1000 live births)	64	18	34	20
Under Five Mortality ² (per 1000 live births)	89	21	42	25
Maternal Mortality (per 100,000 live births)	300	75	130	130
Life Expectancy (years, at birth)	54	70	69	70

¹ Infants under one year old. : ² Children under 5 years old.

Sources: Recent Fertility and Mortality Indices and Trends in Papua New Guinea, PNG National Statistical Office (2000 Census data) and Human Development Report 2004, United Nation Development Program.

It is widely acknowledged that the deterioration in economic management in the 1990s was a symptom of a wider deterioration in the quality of governance. Increasing evidence of official corruption, the politicisation of the public service, worsening law and order problems and ongoing political instability, all served to underline this perception. Moreover, while the 1995 Organic Law on Provincial Governments and Local Level Governments (covering PNG's decentralised system of government) was intended to improve service delivery, the evidence suggests that the new Law has had the opposite effect. It is generally accepted that the new Organic Law suffers from serious conceptual flaws, has been poorly implemented and is poorly understood across all levels of government.

Overall, in the 10 years to 2000, the economy as a whole grew on average by around 4 per cent per annum in real terms, while annual growth in the agriculture, forestry and fishing sector was only marginally above the population growth rate. Given that over this period major new mining and petroleum projects commenced production, the 1990s may be rightly described as PNG's decade of lost opportunity.

The 1990s was PNG's decade of lost opportunity.

1.3 The MTDS 1997-2002

PNG's previous MTDS, which covered the period 1997 – 2002, was presented to Parliament in December 1996. The MTDS attempted to put in place a strategy to address the physical constraints and policy weaknesses that were hindering PNG's growth and development performance. The MTDS embraced the need for ongoing economic reform under the then Structural Adjustment Program, including a

commitment to fiscal discipline. It also recognised the need for a more limited role for government and one that focused on creating the enabling environment for a vibrant private sector, which included smallholder agriculture.

The underlying philosophy of the previous MTDS was that government would “help out, not hand out”. In order to help out and to create the enabling environment for growth and development, the MTDS identified the Government’s immediate expenditure priorities as primary health care, basic education, transport infrastructure maintenance, law and justice and the promotion of the private sector.

While the strategy outlined in the MTDS was soundly based and well received by the international community, overall, it did not translate into better economic and social outcomes. Indeed, over the six-year period covered by the MTDS, PNG’s gross domestic product contracted by nearly 4 per cent in real terms.

While external factors such as cyclone Justine, the El Nino drought and the East Asian crisis contributed significantly to this poor performance, domestic issues were also important. In 1997, the first year of the MTDS, the country was severely affected by the Sandline mercenary crisis that, among other things, eroded investment confidence, weakened PNG’s systems of governance and undermined service delivery.

Poor fiscal management in 1998 and the first half of 1999 pushed the country to the edge of another macroeconomic crisis and budgetary allocations grew increasingly out of alignment with the MTDS priorities. While in 2000 and 2001 fiscal stability was restored, and the Government introduced a reform program that was consistent with the philosophy of the MTDS, fiscal discipline waned in the lead-up to the 2002 national election, leading to wasted resources and the re-emergence of serious macroeconomic pressures.

The previous MTDS, together with the experiences of the period 1997 to 2002, have been carefully analysed and the lessons learned have guided the preparation and focus of the new MTDS. This process will help ensure that the MTDS 2005-2010 will be more successful in promoting economic growth and development. Key lessons learned from the experience of the MTDS 1997-2002 were:

- Although the policies and priorities contained in the MTDS 1997-2002 were soundly based, they were not rigorously applied or followed in practice;
- There was very little ownership of the MTDS, across all levels of government. This contributed to the implementation of policies and programs that were inconsistent with the strategy;

- Weak ownership of the MTDS meant that it was not an important driver of the budgetary process and the budget allocations over the period did not adequately reflect the stated expenditure priorities;
- The MTDS acknowledged that cooperation between the various levels of government would be vital for the success of the development strategy. In this regard, it was expected that the relevant authorities would address the confusion over service delivery and responsibilities, which had arisen under the new Organic Law on Provincial Governments and Local Level Governments. Unfortunately, these weaknesses were not addressed and the MTDS was poorly integrated with the policies and programs of the provincial and local level governments; and
- Political and policy stability, and stable macroeconomic conditions, are fundamental preconditions for an effective enabling environment.

1.4 The Program for Recovery and Development

The Government's Program for Recovery and Development, as announced by the Prime Minister, Sir Michael Somare, in August 2002, will continue to be operationalised by the MTDS 2005-2010. The Program for Recovery and Development is focused on three broad-based and interrelated objectives. These are:

- Good governance;
- Export-driven economic growth; and
- Rural development, poverty reduction and empowerment through human resource development.

Good governance is to be promoted through reform of the public sector and enhanced political stability. The cost of the public sector has reached a critically high level while the quality and out-reach of services is poor. This development has arisen because spending has been poorly managed and controlled, accountability has been weak and the structures, systems and processes of government have been inefficient. The Government has been

systematically addressing these problems since forming office and the reform program will continue over the life of the new MTDS.

"We will restore stability in all aspects of governance, unite our people to work together for the common purpose of improving their standards of living and empower them to be more committed to their family, community and the nation's expectations".

Statement to Parliament by the Prime Minister on Recovery and Development, 27 August, 2002

The strategy for export-driven economic growth will focus on agriculture, forestry, fisheries and tourism, and will be supported by mining, petroleum, gas and manufacturing. Papua New Guinea is an open economy with a high dependency on both exports and imports. Given the economy's current level of development, PNG's domestic market is constrained by a small population with modest purchasing power. Opportunities in the domestic market are limited further by the rugged topography and dispersed population. Given these constraints, PNG's medium term prospects will rest heavily on exploiting opportunities in the global economy.

Under the MTDS, export-driven economic growth will be promoted by removing the obstacles to increased economic activity, especially for PNG's rural majority, and by facilitating increased investment in sectors in which Papua New Guinea has a competitive advantage.

Rural development and poverty reduction are to be addressed through an emphasis on health, education and agricultural development, and by empowering ordinary Papua New Guineans to drive the development process. Overall, the Government's goals for export-driven economic growth, rural development and poverty reduction lie at the heart of the MTDS 2005-2010.

1.5 Design of the MTDS – Consultation and Approach

As noted above, the MTDS 2005-2010 is based firmly on the Government's Program for Recovery and Development. In translating this program into an operational strategy, the Government was very mindful of the lessons derived from the experience of the previous MTDS. Importantly, in designing the new MTDS the Government has sought to ensure strong ownership of the strategy by all stakeholders, including ordinary Papua New Guineans.

In any democracy, successful development depends on building and maintaining a consensus on the development goals and the strategy or means to achieve these goals. As demonstrated by the experience of the previous MTDS, a development strategy will only be successful if it is owned by all stakeholders, including ordinary Papua New Guineans, and accurately reflects their aspirations and needs.

To help ensure widespread ownership, the new MTDS is the product of extensive consultation. In designing the new strategy, consultative forums were held throughout Papua New Guinea, involving representation from all levels of government, the private sector, churches and other community based organisations. The MTDS was also discussed at the various forums of the Consultative Implementation and Monitoring Council (CIMC) and with international development partners. Within the National Government, the MTDS was subject to

the oversight and direction of the Central Agencies Coordination Committee.

The consultative process demonstrated widespread support for the Government's Program for Recovery and Development, and its three components of good governance; export-driven economic growth; and rural development, poverty reduction and empowerment through human resource development. Following the consultative process, the Ten Guiding Principles of the MTDS were drafted to reflect the shared values, goals and aspirations of Papua New Guineans. The Guiding Principles have helped shape the design of the MTDS and will serve to strengthen the partnership between government and the wider community in implementing the strategy.

The Ten Guiding Principles of the MTDS reflect the shared goals, aspirations and values of Papua New Guineans.

1.6 Key Threats to Growth and Development.

As a young nation state, Papua New Guinea confronts many constraints that impede effective growth and development. Many of these constraints, such as poor infrastructure, gender inequality and underdeveloped education and health services, have been recognised by governments since Independence and continue to be a key focus of the MTDS 2005-2010. In recent years, however, there has been an increasing focus on other issues that have emerged as serious threats to growth and development. Unless these threats are also addressed under the new MTDS, the programs that target the traditional constraints (such as transport infrastructure) will not be effective in achieving the desired development outcomes. While these issues are discussed in more detail in later chapters, they are highlighted briefly below.

- HIV/AIDS Epidemic

Papua New Guinea is confronting an HIV/AIDS epidemic that threatens not only the country's future development prospects, but risks undermining the development achievements of the post-Independence period. Aside from the personal grief of afflicted individuals, families and carers, HIV/AIDS also threatens PNG's economic prospects, including by eroding the skills base of the economy. Arresting the spread of HIV is a fundamental objective of the MTDS 2005-2010. Unless government and the wider community are successful in this endeavour, the impact on Papua New Guinea could be catastrophic.

- High Population Growth

Papua New Guinea's 2000 National Census revealed that between 1980 and 2000, the country's population grew by a high 2.7 per cent per annum, a rate well above the average for developing countries. This data

indicates that PNG's demographic transition to lower birth rates has been slow. The high population growth rate adds to the pressure on the Government's health and education budgets, reduces the saving capacity of families, and undermines the economy's capacity to sustain increases in per capita incomes. Moreover, in certain parts of the country, the high population growth rate is contributing to land pressures and is placing the traditional subsistence agriculture safety-net under stress.

For 2005-2010, a key objective for the Government will be to strengthen the implementation of the National Population Strategy (2000-2010) and to design and implement provincial population strategies. The objective of the National Population Strategy is to promote the transition to a population growth rate of 2.1 per cent or less by 2010.

- Unplanned Urbanisation

In common with other developing countries, Papua New Guinea is currently confronting serious problems with the unplanned expansion of its urban and peri-urban areas. Rural to urban migration is an inevitable outcome of modern development. However, if left unmanaged, it can create serious problems for urban communities and the country as a whole. In Papua New Guinea, the problems associated with the unplanned expansion of urban centres are manifested in serious crime, urban squalor and public health risks. While these problems impact directly on the quality of life of all urban residents, and increase costs to urban-based businesses, they also have a wider impact on the economy as a whole.

In Papua New Guinea, major urban centres such as Port Moresby and Lae are the gateway for international investors and other international visitors, including tourists. In this regard, the problems associated with unplanned urban settlements have a pervasive and negative impact on the image of the country as a whole. The law and order problem in Port Moresby impedes investment and tourism not only in the national capital, but throughout the country. Hence, policies designed to address the urbanisation problems of Port Moresby and Lae will not only improve the quality of life of urban residents, they will also improve the economic environment for the entire country. For 2005-2010, addressing the problems of unplanned urban growth will be a priority under the MTDS.

- Dysfunctional Service Delivery Systems

A key objective of the 1995 Organic Law on Provincial Governments and Local Level Governments was to improve service delivery by transferring significant responsibilities and funds to the provincial and local level governments. However, the reality on the ground is that in the years

since the passage of the Organic Law, service delivery has deteriorated. On the whole, service delivery systems are dysfunctional and there remains widespread confusion over functional (who does what) and financial (who pays for what) responsibilities across the three levels of government. As well, institutional capacity to deliver services is generally poor, and in many local level government areas, is best described as grossly inadequate.

PNG's decentralised system of government is here to stay. It is a manifestation of the nation's cultural diversity and the demands of Papua New Guineans to be actively involved in the process of government, particularly as it affects their village and region. However, if the MTDS is to achieve its objectives, the system of decentralised government must be made to function far more effectively. Under the public sector reform program, and with the advice and guidance of the Department of Provincial and Local Government Affairs, the National Monitoring Authority and the National Economic and Fiscal Commission, the Government will intensify its efforts to identify practical solutions to address the current problems of the decentralised system, and the impediments to service delivery in particular.

- Impediments to Land Utilisation.

PNG's customary land tenure system is firmly entrenched in the nation's culture, and it is recognised under the country's legal system. It underpins PNG's robust village farming system and provides a welfare safety-net for the vast majority of the people. Customary owned land, however, is also widely viewed as a major constraint to economic development.

As a general rule, customary land cannot be used as collateral by landowners seeking investment funds due to the absence of secure legal title. As well, individual landowners have little incentive to improve the land if the resulting benefits accrue to a large number of people who did not contribute to the improvement effort. Mobilising customary land for large-scale economic projects is also viewed as costly, time-consuming and is characterised by ongoing uncertainty.

While the above-noted concerns over customary land have been recognised since Independence, PNG's recent development record has placed them into sharper relief. With a rapidly growing population and poor record of economic performance, there is an increased urgency to develop, in a cooperative manner, a system for increased land utilisation. The system must be acceptable to traditional owners and meet the requirements of investors and other parties that seek increased access to land, including urban councils. Under the MTDS, the Government will reinvigorate efforts to develop effective but culturally sensitive solutions to this issue.

CHAPTER TWO: MTDS 2005-2010 – KEY OBJECTIVES

2.1 Introduction

The ultimate goal of the MTDS 2005-2010 is to foster sustainable improvements in the quality of life of all Papua New Guineans by promoting economic growth and social development. Consistent with the Government's Program for Recovery and Development, this goal will be pursued by ensuring good governance, adopting an export-driven economic growth strategy, and by promoting rural development, poverty reduction and human resource development.

In order to have maximum impact on growth and development, the strategy must be consistent, credible and based on the country's competitive advantages. As noted in chapter one, the MTDS will have a particular focus on agriculture, forestry, fisheries and tourism, and will be supported by mining, petroleum, gas and manufacturing. In this regard, it will seek to build on the strengths of these sectors.

As well, the MTDS will target rural development, poverty reduction and empowerment through human resource development. Empowering Papua New Guineans, including through the provision of basic education and primary health care, will not only directly improve living standards but will also promote economic growth.

In light of the above, the key objectives of the MTDS 2005-2010 are discussed in more detail below.

2.2 Economic Growth

Central to the MTDS 2005-2010 is the promotion of robust and broad-based economic growth. As discussed in chapter one, Papua New Guinea's growth performance has been poor, especially since the mid 1990s. As a result, even more Papua New Guineans have fallen into poverty. The new MTDS is firmly focused on addressing this unacceptable state of affairs.

The promotion of economic growth is central to the MTDS

PNG's economic and development performance over the past decade has been characterised by a 'vicious circle' of stagnation. Poor policies have retarded economic growth, which in turn has reduced government revenues. Reduced revenues have impacted adversely on service delivery, including in relation to road maintenance, which in turn, has further impeded economic growth, thereby continuing the cycle of stagnation.

Under its Program for Recovery and Development, the Somare Government has made significant progress in replacing the vicious

circle with a 'virtuous circle' of growth and stability. Under the virtuous circle, sound policies promote economic growth, which in turn increases revenue to the Government. Increased revenue assists macroeconomic stability and permits increased spending on core services. This in turn promotes stronger economic growth, thereby continuing the cycle of growth and stability. The role of the MTDS 2005-2010 is to strengthen this process.

As noted, the engines of growth under the new MTDS are agriculture, forestry, fisheries and tourism, supported by mining, petroleum, gas and manufacturing. These sectors represent PNG's competitive strengths in the global marketplace. By promoting the right enabling environment, and by carefully targeting government expenditure to address the constraints that inhibit the expansion of these sectors, the PNG economy should be able to grow by 5 per cent per annum in real terms.

Towards the end of the period 2005-2010 real economic growth of 5 per cent per annum should be attainable.

The new MTDS will not only target economic growth, it will specifically target 'quality' economic growth. Quality economic growth means that every Papua New Guinean will be able to benefit from a growing economy. It will be based on the principle of participation, with ordinary Papua New Guineans encouraged to drive economic growth through investing 'sweat equity' and by utilising their own resources, namely land and labour. Therefore, under the MTDS, all Papua New Guineans will be empowered to improve their own living standards

It should be appreciated that even relatively modest increases in cash income in predominately subsistence communities can underwrite a marked improvement in living standards. Cash incomes can be used to purchase clothing, kerosene for cooking and lighting, garden implements, cooking utensils, medicines, education supplies, and protein-rich foods that provide a much needed supplement to the traditional starch-based diet. Moreover, and as was demonstrated during the widespread 1997 drought, access to cash incomes also enhances food security. During the drought, villages with cash incomes, or cash savings, were better placed to cope with the failure of food crops as they could purchase foodstuffs from stores and markets.

Even relatively modest increases in cash incomes can have a significant impact on living standards in rural Papua New Guinea.

In order to promote quality economic growth, the Government will focus on a number of key areas, encompassing both the economic and social sectors. These are discussed in more detail below.

2.2.1 The Primary Sector – Agriculture, Forestry and Fisheries

First and foremost among the Government's priorities to promote economic growth is the primary sector, comprising agriculture, forestry and fisheries. Given that 87 per cent of Papua New Guineans live in rural areas, a focus on increasing production in this sector will not only underpin economic growth, but will also directly improve the living standards of over 5 million Papua New Guineans.

A key strategy of the Government will be to promote economic growth by empowering smallholders to mobilise their own resources to generate higher incomes. The self-interest of smallholders will be motivated by creating the enabling environment that will deliver higher rewards for productive effort. By fixing the roads and wharves, restoring law and order, enhancing skills and providing extension services, the Government will encourage and empower Papua New Guineans to utilise more fully their resources for income generation. Good roads, basic services, extension support and law and order will increase the prices received by smallholders for their produce and reduce the costs of their agricultural inputs. They will also reduce the cost of goods sold at trade-stores.

Economic growth will be promoted by increasing the returns to smallholders for productive effort

Papua New Guinea has a long and noble tradition as an agricultural society and primary industries remain the bedrock of the modern day economy. This is where PNG's competitive strength lies in the global market and it offers the best prospect for promoting broad-based economic growth. By building on PNG's competitive advantage across a range of primary industries, Papua New Guinea should aim to become the world's tuna capital, a leading exporter of palm oil and rubber, and a major supplier of fruit and vegetables to the Australasia region.

In order to capitalise on global market opportunities, Papua New Guinea will need to adopt international best practice in relation to quarantine, marketing and quality control standards. As a new initiative in the MTDS 2005-2010, the Government will develop a program to ensure that local producers meet international standards in these key areas. The program will also develop a certification system to ensure that Papua New Guinean agricultural exports meet international standards.

Within the global market, Papua New Guinea is well placed to capitalise on its clean, natural environment. In this regard, an emerging competitive strength is PNG's capacity to meet the world's increasing demand for organically produced products.

As noted in chapter one, Papua New Guinea is host to the world's second largest tropical rainforest. With careful and ecologically

sustainable management, PNG's forestry endowments will provide substantial and ongoing benefits to both the economy and local communities. Ensuring that logging is managed in an ecologically sustainable manner is a key objective. Ecologically sustainable development is important not only to ensure that commercial logging continues to generate export revenue over the long term, but also because natural forests are a crucial resource that supports the semi-subsistence livelihoods of the majority of Papua New Guineans.

The Government will closely examine options and strategies for maximising opportunities under the Kyoto Protocol and international conservation funds. In relation to climate change and biodiversity, PNG's natural rainforest is a global asset and the international community derives considerable benefits from its careful management. In this regard, under the MTDS, the Government will reinvigorate its efforts to explore options for the inclusion of natural rainforests under the Kyoto Protocol's carbon trading mechanism. If established rainforests were included in the carbon trading mechanism, landowners could receive financial payments from developed nations to protect their forests in their natural state.

PNG's economic exclusion zone encompasses a rich tuna resource and over 20 per cent of the population is engaged in fishing for subsistence requirements. Following the passage of the National Fisheries Act in 1998, the fisheries industry has been transformed. Revenue from fishing licences has grown substantially, as has interest from both foreign and local investors.

Under the MTDS, the Government will build on the strength of the sector, including by increasing the level of local participation. Two export-oriented tuna canneries are currently in production and more are planned to be commissioned in the near future. The canneries add value to PNG's tuna resource and are major employers of Papua New Guineans. The fishing industry will be further boosted by the construction of new wharves and the promotion of small-scale, village-based fishing operations. With careful management, small-scale fisheries could become an increasing and valuable source of income for village communities.

2.2.2 Tourism

Over the period of the MTDS, the service industry should develop to be a significant driver of the economy, particularly in relation to tourism. Given PNG's abundant natural beauty, unique environment and cultural diversity, the potential for the tourism industry is considerable. In a number of niche markets, such as diving, trekking, and village-based tourism, Papua New Guinea has the potential to be a world leader. As

PNG has the potential to be a world leader in segments of the eco-tourism market.

well as those directly employed in the hospitality industry, tourism will also generate considerable opportunities for PNG's world-renowned artisans and artists, and for smallholders supplying produce to motels and guest houses.

As yet, Papua New Guinea has not exploited the opportunities that tourism has to offer. The two most significant constraints are negative perceptions arising from the law and order situation and high costs, particularly the cost of flights and accommodation. Law and order is a problem that affects all areas of business, and has been identified as an expenditure priority under the MTDS 2005-2010 (chapter three). The high cost of transport and accommodation can only be addressed over time, including through an increase in competition among service providers. As well, once Papua New Guinea obtains a critical mass of tourist arrivals, tour operators will be able to exercise their market power to negotiate lower airfares and accommodation charges.

In order to promote PNG's tourism industry, the Government will examine options for extending tax concessions to industry participants. As will be the case for tax concessions to other sectors, the introduction of concessions for tourism will be very carefully appraised. By introducing tax concessions, the Government is opting to forgo tax revenue. It must therefore be certain that the wider economic benefits from increased tourism outweigh the cost of reduced tax revenue from tourism operators.

No tax incentives will be introduced until a full and considered investigation into these impacts has been undertaken. Moreover, any tax incentive regime that is put in place, will be transparent and accountable, in order to ensure that it is not abused to the detriment of the Government's tax base.

2.2.3 Mining, Petroleum and Gas

While PNG's mining and petroleum industry operates largely as an enclave activity, with relatively limited direct linkages with the rest of the economy (at least outside of the project areas), over the years the sector has been a substantial earner of foreign exchange backed revenues for the Government. The substantial revenues from the sector provide the Government with the financial capacity to provide essential services to the people of Papua New Guinea. In this regard, and if the revenues are expended wisely by government, the sector can have a significant indirect impact on the living standards of all Papua New Guineans.

As discussed in chapter one, despite benefiting from significant mining and petroleum wealth, PNG's overall development record since Independence has been disappointing. To a significant degree, past governments have failed to use mining and petroleum revenues in a

manner that would have underpinned broad-based economic growth and social development.

The so-called 'trickle-down' effect of enclave economic development does not occur automatically, it requires credible government policies and the careful allocation of public expenditures. Credible policies and expenditure programs are the central features of the MTDS 2005-2010. In this regard, a key objective of the development strategy is to transform the non-renewable income stream from mining and petroleum into a sustainable income stream by investing in people, essential infrastructure and the renewable resources sector.

A number of key projects in the mining and petroleum sector are approaching the end of their economic life and in total, revenues from the sector are expected to fall over the medium term. To add to the sector's difficulties, exploration activity fell markedly during the second half of the 1990s.

In recognition of its essential role in contributing to the objectives of the MTDS, the Government is committed to maintaining investor confidence in the mining, petroleum and gas sectors. In the 2003 budget, the Government acted decisively to improve the attractiveness of the fiscal regime applying to the industry. The measures have already had a marked impact on investor sentiment and projected exploration activity has increased significantly. International sentiment towards Papua New Guinea as an investment destination will be improved further under the MTDS, by enhanced policy stability, and the priority accorded to law and justice.

The decision in 2004 to commence the Front-End Engineering Design (FEED) for the PNG-Australia pipeline is a major advance for this critical project. The decision on the FEED bodes well for gas to be exported to Australia during the timeframe of the new MTDS. It is also a concrete signal of a marked strengthening in international investor sentiment towards Papua New Guinea.

Over the longer-term, gas has the potential to become PNG's most commercially valuable natural resource. In addition to the PNG-Australia project, the Government will be assigning priority to the development of a northern gas pipeline to supply a Liquid Natural Gas (LNG) facility in Wewak. If successfully developed, the LNG facility will supply the lucrative and fast growing markets of Asia.

Gas has the potential to become PNG's most valuable natural resource.

In addition to these two key economic projects, there is enormous potential to commercialise gas for the domestic market. For example, the Hides gas project has been meeting the electricity requirements of the Porgera mine since the early 1990s. Other local mining companies are in the process of examining options to utilise local gas

as their principal energy source. As well, the proposal to construct an auxiliary gas pipeline into Port Moresby will provide a major boost to local manufacturing industries (discussed below).

Aside from the large-scale mining projects, it is also estimated that around 70,000 Papua New Guineans are dependent on small-scale mining operations, such as informal alluvial mining. As a significant sub-sector in its own right, government policy aims to promote small-scale mining in an environmentally friendly manner.

2.2.4 Manufacturing and Downstream Processing

Over the medium-term, the Government will seek to increase the value of exports produced by PNG's value adding manufacturers. This applies not only to the fisheries sector but also to other sectors, such as forestry (furniture production) and mining (copper smelting). The strategy for increased industrialisation will be commercially driven and will target PNG's areas of emerging competitive strength.

Within the global market, competitive advantage is not static. As countries progress along the development path, they become increasingly competitive in some areas (such as high-tech industries) and less competitive in other areas (such as labour intensive manufacturing). Papua New Guinea is strategically located in the fast growing Australasian region and new opportunities are always emerging. In this regard, Papua New Guinean entrepreneurs and foreign investors alike, should be vigilant in identifying industries in which the country may be gaining a competitive advantage.

In Samoa, for example, a labour intensive automotive wiring plant has been established to supply the Australian market and it operates successfully because it enjoys a competitive advantage due to relatively low labour costs. The success of the Samoan operation underlines the potential for Papua New Guinea to attract labour intensive assembly plants that can supply the Australasian automotive, electronic and computer industries.

Since the float of the Kina in 1994 and the effective deregulation of wages in 1992, the PNG economy has become competitive in a number of new industries, such as tuna processing. PNG manufacturers are also winning export contracts in processed foods and metal fabrication, and an oil refinery commenced operations in 2004 that services both the local and export market.

The role of government is to ensure an operating environment that will enable local industry to take maximum advantage of new opportunities as they emerge in the global market. Under the MTDS, the operating environment will be enhanced through the commitment to a credible policy regime and ongoing macroeconomic stability, as

well as through the prioritisation of expenditure on law and justice, education, health, and transport infrastructure.

In order to further improve the operating environment over the period of the new MTDS, the Government will consider tax incentives for businesses that enter into downstream processing and manufacturing for the export market. As noted above, such incentives will only be offered on the basis that the benefits to the economy from the increase in export earnings will be greater than the direct cost to the Government in terms of decreased tax revenue.

The PNG-Australia gas pipeline project provides the opportunity to introduce a highly competitive energy source to the National Capital District (NCD) through the construction of an auxiliary pipeline. This energy source will improve the cost-effectiveness of local manufacturers and provide a boost for established companies and new investors seeking opportunities in the export market. In this regard, the PNG-Australia gas pipeline, combined with an integrated industrial park program, will provide a major boost to the manufacturing sector in the NCD and adjoining regions.

The gas pipeline to Australia will enhance the competitiveness of local manufacturers

In assessing PNG's prospects in manufacturing, it is also important to appreciate that increased cash incomes for the country's rural majority, will have a powerful impact on increasing market opportunities for both PNG's manufacturing and service industries. The flow-on effects of strong agricultural regions are amply demonstrated by the vibrant local economies that service PNG's oil palm and coffee growing areas. The nucleus estates and plantations serve as growth poles that stimulate a range of commercial activities in their region of influence.

Increased cash incomes for PNG's rural majority will have a powerful impact on expanding opportunities for local manufacturers.

As an initiative under the MTDS, the Government will strengthen PNG's investment and trade promotion capability. Investment and trade promotion will build on PNG's competitive advantages and the Government's commitment to streamline the regulatory regime applying to investors and businesses in general. The Government will examine options to support the design of pre-feasibility studies in areas of potential investor interest.

In addition, the Government will assist local investors in their efforts to secure investment finance from the banking system and other sources, through the preparation of business plans and cash-flow analysis. This element of investment and trade promotion will complement the services currently provided under the Government's

Start Your Business/Improve Your Business program. The new investment and trade promotion project will be designed in 2005.

All told, while the principal focus of the MTDS 2005-2010 is the primary industries sector, the strategy will also help underpin PNG's transition to an economy more heavily based on value-added industries, such as manufacturing. The Government's forthcoming White Paper on Industrialisation, which will be prepared in 2005, will provide greater detail on the policies and programs that will underpin this transition.

2.2.5 Foreign Investment

Foreign investment is crucial for PNG's growth prospects. Given the nation's low level of domestic savings, foreign investment is vital for large-scale projects, especially in the mining, petroleum and gas sectors. It is also important for the transfer of technology and skills, and in developing export markets.

Foreign investment has also been important for the development of PNG's nucleus agro-enterprises, which have underpinned very strong growth in palm oil exports. While out-growers typically invest in smallholder plots through the provision of 'sweat equity', foreign investment is often required to develop the plantations and processing facilities required under the nucleus agro-enterprise model.

Since the mid 1990s, foreign investment in Papua New Guinea has slowed markedly, especially in the resources sector. In large part, this downturn reflected growing concerns over political and policy instability, economic instability more generally, and law and order concerns. The downturn in foreign investment has contributed significantly to PNG's poor economic performance over the past decade.

In order to increase foreign investment over the period of the MTDS, it is crucial that the Government continues to pursue credible policies that preserve macroeconomic stability and address the constraints that detract from the investment environment, such as law and order concerns and deteriorating public infrastructure. These issues will be discussed in chapter three.

2.2.6 Manpower Planning

If Papua New Guinea is to successfully integrate into the global economy and move into higher value-added industries, there will need to be a considerable improvement in the country's skill base and labour productivity levels. In certain fields, such as technical trades and the accounting professions, Papua New Guinea currently faces a

skills shortage. More generally, labour productivity across most sectors is relatively low.

If Papua New Guinea is to successfully attract labour intensive, export-oriented industries, it will need to develop a manpower strategy in order to address emerging skill shortages and to lift workforce productivity to international standards. The design and implementation of a manpower strategy is a priority under the MTDS 2005-2010, with preparatory work commencing in 2005.

The demand for skills will be met locally by PNG's higher education institutions and through the selective allocation of work permits to foreign workers. The manpower plan will assess the costs and benefits of the two options. Over the medium term, and for certain trades and professions, it may be more cost effective to import labour through the work permit system. In this regard, it should be appreciated that by addressing local labour bottlenecks in a cost-effective manner, the foreign worker will be generating many more jobs for Papua New Guineans. Foreign workers may also have a positive impact on improving the discipline and productivity levels of the local workforce.

All relevant stakeholders, including the private sector, education institutions and the trade union movement will be involved in the preparation of the manpower plan.

2.2.7 The Urban Informal Sector

While the majority of Papua New Guineans depend on a combination of subsistence and cash crop production for their livelihood, there is an increasing number of people who earn a living from operating small-scale informal businesses or from gaining employment in the non-formal workforce. While the most common informal enterprises are small-scale food vendors, the informal sector also encompasses security guards, domestic staff, home-based garment manufacturing and even extends to basic mechanical workshops.

Although much of the income earned in the informal sector is not recorded in the country's national accounts, the sector supports a significant and growing number of Papua New Guineans. Studies have shown that millions of Kina circulate daily in the informal sector in the NCD alone. Informal workers also provide a valuable service to those employed in the formal sector.

Millions of Kina circulate daily in the informal economy of the National Capital District.

The potential for the informal sector to contribute to the economic growth of the nation has, to date, been neglected. Facilitating strong informal sector growth by creating an enabling informal sector environment, will provide the foundation stone for the development of

a vibrant, indigenous formal economy. Small-scale enterprises in the informal sector provide a valuable training ground for entrepreneurial Papua New Guineans and can assist the more motivated to establish larger enterprises in the formal sector. The transition from the informal economy to the formal economy can be strengthened by developing institutions that focus on micro-savings and access to micro-credit, and by facilitating development-oriented adult education.

The minimum standard for informal sector development must be 'sufficiency for everyone' and, in this regard, the benchmarks for sufficiency will need to be defined. Establishing minimum socio-economic targets in the informal sector will also help ensure a more focused approach to poverty reduction. The promotion of the informal sector is an important means of improving the livelihoods of those Papua New Guineans living in urban communities who are not engaged in formal sector wage employment.

In recognition of its important role in supporting Papua New Guineans, the Government is committed to addressing the obstacles to the development and coordination of the informal sector. The new informal sector legislation passed in 2003 is a significant step towards this goal. Articulating minimum standards for the informal sector will protect it from exploitation by authorities imposing unrealistic and counterproductive formal sector standards on the operations of its various micro-enterprises. Bringing the sector under regulation in this way is an important step towards recognising its needs and potential, and integrating it into the wider economy.

The nature of the informal sector necessitates a strong multi-sectoral approach to its development. In this regard, the Government's primary role is twofold:

- To facilitate informal learning and economic development opportunities in an appropriate enabling environment, and in partnership with civil society organisations, by identifying, strengthening and expanding the informal learning and development activities that already exist; and
- To ensure that informal sector development is in line with government priorities and is mapped-out and targeted within the MTDS.

Many challenges exist to developing the potential of the informal sector. However, the MTDS will focus on three priorities:

- providing access to development-oriented adult education;
- generating income-earning opportunities; and
- providing access to micro-finance institutions.

2.2.8 Land Utilisation

Papua New Guinea is a land-rich nation, with an average of only 12 persons per square kilometre, compared to 45 persons per square kilometre in Fiji and 114 in Indonesia. For the vast majority of Papua New Guineans, land is their most valuable asset and the cultural bonds are deep and enduring. The customary land tenure system also supports the country's robust village-based farming system.

However, as discussed in chapter one, PNG's customary land tenure system is widely viewed as a major constraint to economic development. As a general rule, customary land cannot be used as collateral by landowners seeking investment funds and mobilising customary land, for large-scale economic projects is costly, time consuming and subject to ongoing uncertainty. Moreover, donor-supported land reform programs have been characterised by considerable controversy and violent protests, serving to underline the sensitivity of land issues in Papua New Guinean society. While the traditional role of land in PNG's culture will remain a paramount consideration, PNG's poor economic and development record over the past decade has heightened the need to re-examine policies in order to facilitate the utilisation of land for economic projects.

For example, the generally poor performance of the agriculture sector has heightened the need to promote large-scale and efficient agricultural projects, such as nucleus-agro enterprises. As well, the high population growth rate has, in certain parts of the country, contributed to serious land pressures that may need to be addressed through land improvement programs and voluntary resettlement schemes. As part of the strategy to attract manufacturing industries, there will also be an increasing demand for land in peri-urban areas.

In the oil palm sector, customary land has been successfully mobilised through the so-called lease, lease-back method. Under the MTDS, there will be a renewed focus on such methods with a view to identifying options to reduce the time and costs involved to all parties. Overall, the end objective is to develop effective but culturally sensitive solutions for increased land utilisation.

2.3 The Social Sector and Key Issues

In order to implement the Program for Recovery and Development the Government must not only promote export-driven economic growth, it must also improve the lives of ordinary Papua New Guineans by developing the nation's social infrastructure. In this regard, it is important to appreciate that the objectives of export-driven growth and human resource development are mutually supporting. Human resource development not only directly improves the living standards

of Papua New Guineans, it is also an essential requirement for a successful growth strategy.

PNG's efforts to achieve the Millennium Development Goals (table 6.1), such as improved functional literacy rates and a reduction in poverty, can be best achieved by strengthening policies on human resource development. Over the medium term, this will require increasing access to formal health and education services, and by providing informal learning opportunities in partnership with civil society organisations.

2.3.1 Education and Health.

Literacy, basic numeracy and problem solving skills are key determinants of a person's capacity to take advantage of income-earning opportunities, including in rural areas. They are necessary for the effective transfer of agricultural extension services and other vocational and life skills. They are also necessary to equip subsistence farmers with the basic know-how and, indeed, confidence to enter the cash economy (Box 2.1).

Box 2.1: Basic Education and Rural Life Skills

Over the years, a number of studies have questioned the relevance of PNG's education curriculum to the majority of students in Papua New Guinea, especially at the lower levels of the school cycle. These studies have echoed the concerns of students and parents alike, that the primary and secondary syllabus has been of limited relevance to the majority of young Papua New Guineans because it does not prepare the pupils for the rural livelihoods to which they must return. Even on the basis of optimistic assumptions for growth in formal wage employment over the medium term, the majority of students in Papua New Guinea will need to secure their livelihoods in village communities, especially by engaging in cash cropping or small-scale, off-farm income-earning activities. More importantly, this is likely to remain the situation for some time into the future.

Against this background, it is important that PNG's basic education curriculum (covering elementary grades through to grade 8) has a strong rural life skills focus. The more talented students will proceed to secondary (grades 9 to 12), technical, vocational and tertiary education, and it is this group that are more likely to secure wage employment in the formal sector. However, the majority of students will end their formal education at Grade 8, and therefore, it is important that basic education prepares this group for everyday life in village communities and equips them with the means to secure a comfortable livelihood within that environment. In this regard, and in addition to the traditional formal subjects designed to develop literacy, numeracy, and problem-solving skills, basic education should also include topics on public health, and training in agricultural and village-based business skills.

The importance of a relevant curriculum for PNG's development is recognised under the National Education Plan (1995-2004) and the draft education plan for 2005-2014. The Department of Education has also been addressing this issue through a number of programs, including the Curriculum Reform Program, the Elementary Teacher Training Program, and the Primary and Secondary Teacher Education project. A relevant basic education will remain a key priority under the MTDS.

Basic education is also a necessary ingredient for effective nation building in a young democratic nation such as Papua New Guinea. Education will help break down ethnic barriers and assist ordinary Papua New Guineans to participate more effectively in the democratic system of government. The provision of basic education is also a most effective mechanism for breaking the cycle of intergenerational poverty. The positive relationship between the educational level of mothers and the health and well-being of children is clearly evident in Papua New Guinea.

Although over the period 2005 to 2010 the primary objective will be to ensure an increasing number of children complete basic education, there will also be an increased emphasis on programs to improve adult literacy, through the promotion of functional literacy programs. As well, the Government's education policy will ensure that PNG's brightest and most talented students have the opportunity to receive a quality higher education. As noted above, the forthcoming Manpower plan will help identify the disciplines and subjects that PNG's tertiary, vocational and technical education system will need to offer in order to meet the skill requirements of PNG's emerging global industries.

To achieve the international benchmark of Education For All (EFA) it is important to develop not only a high quality, relevant education system, but also a flexible community-based informal system of learning, covering both early childhood and adult education.

As is the case with education, the provision of primary health care directly improves the quality of life of Papua New Guineans and leads to a more productive workforce. Poor health debilitates the productivity of adult Papua New Guineans and is a major cause of absenteeism among school children. It also contributes to the high dropout rates experienced across all levels of schooling.

Over the period of the MTDS, the Government will focus on improving access to primary health care. This will include an emphasis on interventions to overcome the diseases that cause the largest number of deaths throughout the country, such as malaria, pneumonia, measles, tuberculosis, diarrhoea and anaemia.

2.3.2 Informal Learning Systems – Creating Learning Communities.

As noted, in addition to the focus on the formal education sector, under the MTDS there will be an increased emphasis on developing the social infrastructure of communities at large, by introducing a multi-sector focus on establishing learning communities. This approach will not require a large increase in expenditure but will depend on government agencies redefining their relationship with communities, and working in partnership with civil society

organisations to provide informal learning opportunities for out-of-school youth and adults.

Adult education has been neglected since Independence and Papua New Guinea now faces a major constraint to development with around half the population functionally illiterate, and dependent on a traditional skills base. There is an urgent need to ensure that all Papua New Guineans are equipped with new knowledge and skills, to enable them to participate more meaningfully in the development of their resources.

While the long term focus of informal education will be early childhood and life-long adult education, in the short and medium term, informal education must also fill the gap for out-of-school children and youth, until such time as when the country successfully achieves universal basic education.

2.3.3 Poverty Reduction.

While absolute poverty is not a widespread problem in Papua New Guinea, a significant proportion of the population is affected by relative or human poverty, as reflected by very low cash incomes, poor economic opportunities, and poor health and education standards. As noted in chapter one, it has been estimated that in 1996 around 38 per cent of the population lived in poverty. Given PNG's poor economic performance in the six years since 1996, the proportion of the population afflicted by poverty will have increased.

Poverty is a multi-faceted issue that requires an integrated and cross-sectoral response to address its many social, cultural and economic aspects. In broad terms, poverty reduction will be addressed under the MTDS by investing in people through education and health, and by promoting broad-based economic growth. Investing in people through primary health care and access to learning opportunities will empower all Papua New Guineans to be more productively engaged in income-earning opportunities.

As noted above, universal access to learning opportunities combines a relevant formal education system with an informal system that focuses on functional literacy and development-oriented adult education. Special attention will also be given to strengthening the informal sector as the foundation for developing a vibrant indigenous entrepreneurial class. The issue of feminisation of poverty will also be addressed by policies that promote the empowerment of women and equal opportunities for the girl child.

The MTDS has been designed in conjunction with the Government's draft National Poverty Reduction Strategy (NPRS). The two strategies are closely integrated and share many common objectives. While the

MTDS has been designed specifically for the period 2005 to 2010, the poverty reduction strategy is a longer-term policy and is focused, in large part, on meeting the Millennium Development Goals (chapter six). The NPRS will be finalized in 2005.

2.3.4 Strengthening the Family Unit.

The MTDS 2005-2010 recognises that the family and clan are the foundation of Papua New Guinean society and the glue that holds it together. It is therefore important that strengthening the family and community is recognised as a policy priority, consistent with the Constitutional goals and directive principles to respect Papua New Guinean ways. The policy of the Somare Government to focus on integrated family and community development in partnership with civil society organisations, reflects this approach.

In parallel with the new integrated social development focus, the MTDS will recognise the needs of special groups in Papua New Guinean society, as outlined below.

2.3.5 Gender Equality and Empowerment of Women.

The success of the MTDS will be constrained if the issues of gender equality and empowerment of women are not addressed. While there has been progress in reducing the disparity between male and female enrolments in formal education, much work is still required to improve both the health status of women and their participation in decision-making at all levels. To address female gender issues, the Government recognises that male gender issues must also be addressed, particularly in the area of gender awareness.

2.3.6 Young People – Empowering Youth and Protecting Children.

Young people (under 19 years of age) comprise 51 per cent of PNG's population, and as such, this group warrants special attention under the MTDS. In particular, programs must address the needs of the large number of youth who are outside of the formal systems of education and employment. The new emphasis on informal education programs and the promotion of economic opportunities in the informal sector, will help address this challenge and help empower youth. In addition, there is a need to review the structures and systems responsible for youth, given that in terms of responsibility over projects, youth affairs is a decentralised function.

The MTDS also recognises that protection of children, and complying with the Convention on the Rights of Children, has become an emerging issue, with increased cultural globalisation contributing to a breakdown in the traditional family unit. The limited capacity of the Government to provide direct funding for these emerging issues and

vulnerable groups, such as HIV/AIDS orphans and abused children, will necessitate new policies and regulatory procedures based on the partnership principle. In this regard, the role of Non Governmental Organisations (NGO) and community based organisations will be critical in supporting these groups.

2.3.7 Disabled Persons.

The MTDS also recognises that the disabled are a vulnerable group and therefore, new community based strategies will be developed to ensure that communities and families are better equipped to cater for the needs of this group. The Government also acknowledges the need to develop more effective partnerships with NGOs that are specialists in the field of disability.

2.4 HIV/AIDS

As noted in chapter one, the HIV/AIDS epidemic in Papua New Guinea has been identified as an issue that poses a catastrophic threat to the objectives of the MTDS. The first case of HIV was diagnosed in Papua New Guinea in 1987. By December 1997, when the first Medium Term Plan for HIV/AIDS was drafted, there were 914 reported HIV cases and 341 reported AIDS cases. As of December 2003, there was a cumulative total of 8,918 people diagnosed as HIV positive.

HIV/AIDS poses a catastrophic threat to PNG's development prospects.

The true incidence of HIV/AIDS is likely to be substantially higher than that reported by these figures, since there is no formal HIV/AIDS related deaths notification system in place. Moreover, it is probable that a very large number of people that are infected with HIV/AIDS have not been tested. Indeed, it has been suggested that there may be up to ten people infected with HIV for each reported case. As well, recent studies have indicated that the virus is firmly established in the general population, with prevalence rates among 15-49 year olds of between 3 to 4 per cent in Port Moresby.

Given the seriousness of the threat that HIV/AIDS poses, the Government will take every step possible to arrest the epidemic. As such, the MTDS supports the efforts of the National AIDS Council (NAC) in its multi-sectoral approach to tackling the disease. This approach recognises that the epidemic has causes and effects that extend well beyond the health sector. It is a wider developmental issue that must be addressed from a multi-sectoral perspective. For example, reversing the course of the epidemic will depend, to a significant degree, on the success of policy in reducing poverty and empowering women.

This means that the response to the epidemic must include not only all Government departments, but also members of civil society, including NGOs, community based organisations and churches. Over the medium term, the Government will work towards the establishment of a whole-of-government approach to fighting the disease. This will involve relating the fight against HIV/AIDS to the national development goals and plans; involving all stakeholders in the planning, management, implementation and monitoring and evaluation of HIV/AIDS programs; and providing a basis for costing and mobilising the required resources for HIV/AIDS interventions. The process will be led by the central agencies of government.

The Government also recognises that if the HIV/AIDS epidemic is to be addressed in a truly multi-sectoral way, supporting the work of the NAC will not, by itself, be sufficient. Indeed, it is necessary to take HIV/AIDS into consideration when assessing all budgetary requests. While the impact of certain projects on the epidemic might be obvious – for example, the construction of a health clinic, others may have a more subtle, but equally important impact on the epidemic.

Infrastructure projects, for example, that involve a large number of workers residing away from their home villages may increase the chance of casual or commercial sex, thus putting the workers and their partners at risk of contracting HIV. In addition, the increased mobility of people arising from a transport project may pose a similar risk. This risk must be taken into account when assessing such projects, in order to ensure that adequate precautions are taken to prevent the spread of HIV/AIDS.

As indicated, it is important that HIV/AIDS is recognised as a major development challenge for the nation and as a social, cultural and economic issue, as much as it is a public health issue. The HIV/AIDS epidemic must be made an urgent priority to ensure that all other development efforts do not become futile.

2.5 Population Growth

As noted in chapter one, between 1980 and 2000, PNG's population grew by a high 2.7 per cent per annum, a rate well above the average for developing countries. At this rate of increase, PNG's population will double in 26 years time. The high population growth places the Government's service delivery budgets under even greater pressure and undermines the economy's capacity to generate sustained increases in per capita incomes. Indeed, over the past decade, population growth has significantly outstripped real growth in the economy.

At the current rate of growth, PNG's population would reach 23 million during the lifetime of a child born in 2003.

For this reason, the Government considers the issue of population growth to be a key obstacle to development. It also recognises that unless the issue is adequately addressed, the economic gains arising under the MTDS may not result in a significant improvement in the standard of living of ordinary Papua New Guineans. Under the MTDS, the principal vehicle for promoting a decline in the population growth rate is the National Population Policy (2000-2010). A key objective will be to strengthen the implementation of the National Population Policy and to design and implement provincial population strategies.

While a key objective of PNG's population policy is to reduce the population growth rate to no more than 2.1 per cent by 2010, it does not encompass population control measures. Rather, the policy seeks to promote a decline in the population growth rate by ensuring that population issues are fully integrated into the policy and plans of other key sectors, especially education and health. The policy also seeks to promote greater awareness of the implications of population growth, for all aspects of development planning.

In line with the population policy, there will be a focus on educating couples on family planning so that they are able to make informed decisions about the size of their families. As part of this process, reproductive health is being introduced into the curriculum for children in grades 6-8. While the messages are simple, they will empower couples to make informed decisions about family size and spacing that will allow them to improve their quality of life, whilst simultaneously decreasing the stress of population growth on the economy and nation as a whole.

Although the widespread provision of contraceptives is necessary in order to allow couples to put family planning into practice, it is not sufficient. It has also been shown that there is a clear link between education and fertility. This link goes beyond knowledge of family planning practices, and includes the woman's ability to plan the family's future with her partner. For this reason, the Government will also focus on the education of the girl child, including by increasing female enrolment and retention rates. This issue is currently being addressed by the Department of Education through the education reforms and the new National Plan for Education.

Education of young males is also very important, since even if young women are aware of family planning, they may not be able to put it into practice if there are other factors at play, for instance traditional cultural practices. Education can help to overcome these factors and ensure that both partners have equal say over family planning issues.

2.6 Urbanisation

As noted in chapter one, and in common with other developing countries, Papua New Guinea is currently experiencing serious problems with the unplanned expansion of its urban and peri-urban communities. While rural to urban migration is an inevitable outcome of development, if left unmanaged rapid urbanisation can have serious negative consequences over and above the impact on marginalised urban landowners and those living in urban settlements.

In Papua New Guinea, the rapid and unmanaged growth of squatter settlements in the major urban centres has contributed to many serious problems, the most acute being urban crime. As noted, Port Moresby and Lae are the gateway for foreign investors and tourists alike, and the squalor and crime associated with their squatter settlements impact adversely on the image of the country as a whole. In turn, negative international perceptions deter foreign investors and present a major obstacle to the expansion of tourism. Large influxes of rural migrants to peri-urban areas can also generate considerable tensions with local landowners and established migrants, and can fuel ethnic animosity to the detriment of national unity.

The Government's approach to the challenge of urbanisation will be greatly strengthened by the National Urbanisation Policy (NUP) 2005-2020. The goals and objectives of the NUP are derived from the nation's constitutional objectives and higher order policies in the social, spatial and economic sectors. The fundamental objective of the NUP is to make significant progress towards the equitable diffusion of the benefits of urbanisation both between and within communities.

This will require action to be taken in the infrastructure and land sectors to equalize the distribution of services on a geographic basis and action to be taken politically and culturally, to further democratise society and the economy. In this regard, the issue of urbanisation encompasses both a spatial and social dimension. The seven central issues to be addressed by the NUP over the period 2005 to 2010 are summarized in table 2.1 below.

The seven issues of urbanisation in contemporary Papua New Guinea define the structure of the policy. Urbanisation has wide ranging impacts upon all aspects of the social economy and the landscape of the nation. It is therefore necessary for action to be taken across the whole spectrum of government, non-government and private sector activities.

Under the MTDS, the principal means for addressing the unplanned growth in urban and peri-urban centres will be to promote a reduction in the level of rural to urban migration. A core objective of the new MTDS is to significantly improve the quality of life of PNG's rural

majority, especially by improving services and increasing income-earning opportunities. As a consequence, the MTDS will address the principal reason for urban migration. As well, this approach can be strengthened by 'back to land [or village]' integrated development programs, as has been successfully followed in some countries.

Table 2.1: Issues to be addressed under NUP 2005-2010

	Issue	Impact to be Addressed
1.	The Economy	Urban Drift
2.	Linkages	Inadequate Infrastructure
3.	Amenity	Undesirable Urban Environments
4.	Welfare	Lack of Access to Basic Services
5.	Land Availability	Shortage of Land for Social and Economic Development.
6.	Law and Order	Crime Undermining Development
7.	Governance	Poor Management

In addition to improving the quality of life in rural areas, over the period 2005 to 2010 the Government will also reduce the social and economic costs of unplanned urban development by addressing the squalor of squatter settlements. By improving basic services such as electricity, water, sanitation and primary health care, and by providing development-oriented adult learning opportunities, the Government will assist those living in settlements to lift themselves out of poverty. In doing so, it will also address the issue of alienation that often fuels anti-social behavior, including criminal activity.

As urban growth will continue even when rural to urban migration slows, it is also important that urbanisation policy thoroughly addresses the situation of traditional urban landowners, and develops strategies to ensure a viable lifestyle for their future generations.

Over the medium term, the Government's approach to addressing urbanisation will be led primarily by the National Consultative Committee on Urbanisation (NCCU). This is a cross-government initiative that reflects the fact that urbanisation must be addressed through a multi-sectoral approach. The NCCU has drafted a National Policy on Urbanisation that will be implemented during the period of the MTDS.

2.7 Information and Communication Technologies

Under the MTDS, the promotion of economic growth and social development will be greatly assisted by a vastly improved telecommunications network, and a program to bridge the digital divide that is limiting the opportunities available to ordinary Papua New Guineans. While the telecommunications network in urban

areas is highly advanced, the vast majority of the people have poor access to the technology. To date, access to information technology has been severely limited by several factors, including lack of the necessary physical and technical infrastructure, high illiteracy rates, and poor education levels.

In recognising the enormous potential of improved telecommunications to promote economic growth and development, in 2003 the Government established the Department of State Enterprises and Information (DSEI). The role of the Department, among other things, is to help ensure that all Papua New Guineans benefit from an improved information and telecommunication system. The Department is also in the process of revising the National Policy on Information and Communications (1994) to ensure that it reflects the current best practice in telecommunications policy.

Under the MTDS, DSEI will play a critical role in facilitating the expansion of the telecommunications network in Papua New Guinea, and in bridging the digital divide. Improved telecommunications will impact positively across all the objectives and sectoral priorities of the MTDS. The Internet and similar technologies, together with solar powered energy sources, provide unlimited opportunities to deliver inexpensive services to even the most remote areas of the country.

Government policy will promote the expansion of a range of 'e-services' to rural communities. For example, aid post staff could be in regular contact with more specialised medical advice through an 'e-health' service. Farmers could keep abreast of developments in international markets and receive extension advice through an 'e-agriculture' service. 'E-education' services could deliver the teacher, lessons, text-books and classroom to students in remote and sparsely populated locations. All told, an extensive and cost-effective telecommunication system has the potential to improve income-earning opportunities, and health and education standards, throughout Papua New Guinea.

The development of a nation-wide telecommunication network that supports broad-band and satellite technology will require a sound policy, regulatory and institutional framework. As with investment in other sectors of the economy, credible and stable policies are crucial for information technology investors. Such a policy framework will be put in place under the leadership of DSEI.

Even though the cost of telecommunications infrastructure is falling due to global competition and technological innovation, it is likely that some regions in Papua New Guinea will remain outside of a market-based system. In such circumstances, the Government will explore options for subsidising the cost of telecommunications' infrastructure to ensure universal access, including by seeking the assistance of international development partners.

CHAPTER THREE: ACHIEVING THE MTDS OBJECTIVES: EXPENDITURE PRIORITIES AND SUPPORTING POLICIES

3.1 Introduction

Under the MTDS the overall goal for improved living standards is to be promoted by ensuring good governance; implementing an export-driven economic growth strategy; and fostering rural development, poverty reduction and human resource development. As the Government's overarching development strategy, the MTDS provides the guiding framework to ensure that the various arms of government policy have the greatest impact on these objectives.

At the national level, the annual budget will be the principal vehicle for implementing the MTDS. This will ensure that all government agencies, ministries and, indeed, the National Parliament, have the opportunity to contribute to the design of the specific programs and measures required to implement the strategy. The annual budget not only presents the Government's expenditure program (through the Appropriation Bills) but is also a key vehicle for introducing other bills and legislative amendments that are designed to improve PNG's enabling environment. For instance, in the 2004 Budget, the Government introduced legislative amendments that were designed to improve the investment environment in the agriculture sector.

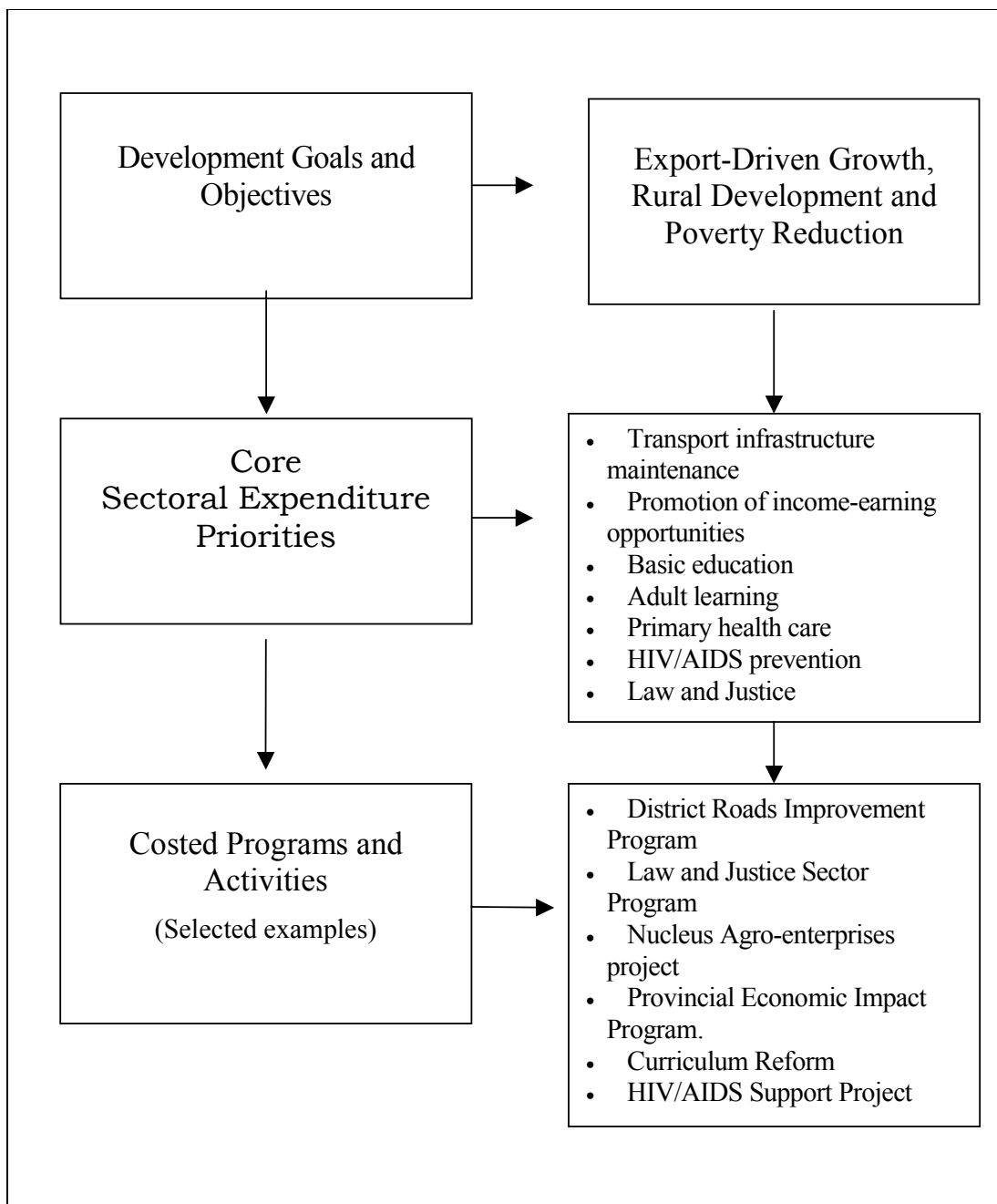
3.2 The Annual Budget and Expenditure Priorities

A major failing of budgetary policy and public expenditure management in the past has been that the link between the Government's development goals and expenditure programs has been weak. Scarce resources have been spread too thinly over an ambitious and poorly coordinated expenditure program. Many programs have been funded without adequate evaluation against the development objectives or the appropriate role of government in the development process. Moreover, this undisciplined approach to budgetary policy also led to total expenditure exceeding what was affordable and fiscally sustainable, resulting in the emergence of serious macroeconomic pressures.

As noted in chapter one, a key functional role of the MTDS is to strengthen public expenditure management through ensuring fiscal sustainability, the strategic prioritisation of available resources, and cost-effective implementation of programs (chapter five). Strategic prioritisation of available resources means that the Government's expenditure program must have the maximum impact on its development objectives. The MTDS will help to achieve this outcome by strengthening the link between the development goals, the sectoral expenditure priorities and the actual expenditure programs, in both the

recurrent and development budgets (Diagram 3.1). In this manner, the development strategy will drive the budgetary process.

Diagram 3.1: Strategic Prioritisation of Resources and the MTDS



The identification of expenditure priorities also requires a careful assessment of the role of government in the development process. For instance, while the promotion of economic growth is central to the MTDS, this does not mean that government should invest directly in export-oriented industries. That is the role of the private sector, which includes the majority of Papua New Guineans that are involved in small-scale cash cropping. The role of government is to complement private sector activity by creating the appropriate enabling environment for economic growth. In terms of expenditure prioritisation, government will focus on the provision of those goods

and services that are essential for economic growth and social development, but would not otherwise be provided by private entities (private individuals or private companies).

Reflecting the above guidelines and based on the Government's Program for Recovery and Development, the sectoral expenditure priorities for 2005 to 2010 have been identified as:

- Rehabilitation and maintenance of transport infrastructure;
- Promotion of income-earning opportunities;
- Basic education;
- Development-oriented informal adult education;
- Primary health care;
- HIV/AIDS prevention; and
- Law and justice.

The effective implementation of the MTDS will require that the sectoral expenditure priorities be allocated increased resources over the life of the development strategy. In view of the restrained fiscal position confronting the Government, the priority sectors will only receive increased funding if resources are redirected from lower priority areas, and if cost-efficiencies are improved across all areas of government. The two key vehicles for implementing these reforms are the Government's Public Expenditure Review and Rationalisation program and the Public Sector Reform program. The role of these two programs is discussed in more detail in chapter five.

3.2.1 Rehabilitation and Maintenance of Transport Infrastructure

Well-maintained transport infrastructure is essential for the efficient flow of produce to markets and for the flow of consumer goods and services to village communities. It is widely accepted that the decline in the quality of PNG's transport infrastructure over the past 10 years has had a major adverse impact on service delivery and the capacity of Papua New Guineans to earn cash incomes.

The highest immediate economic and social returns will be derived from rehabilitating and maintaining the Highlands Highway and associated feeder road network.

Increased transport costs arising from deteriorating infrastructure are reflected in reduced smallholder returns for cash crops and increased prices of basic consumer goods such as rice and tinned fish. The delivery of key services in health, education, agricultural extension, and law and justice has also been impeded. Moreover, in certain areas of the country, the collapse of transport systems has deprived Papua New Guineans from earning any income at all from cash cropping and marine activities.

By linking markets and reducing costs, maintenance and rehabilitation programs for roads, wharves and airstrips will be a powerful force for economic growth and development, particularly in rural Papua New Guinea. It is also noted that while the Government's priority is the maintenance of existing transport assets, major new transport projects may be considered for funding if, through the application of rigorous cost-benefit analysis, it is clearly demonstrated that the proposals will have very high economic and social returns. Moreover, once PNG's existing transport infrastructure is restored and maintained to an acceptable level, the economic justification for expanding the network is likely to be stronger and major new projects (such as the trans-island highway) may become a priority under the next MTDS.

Under the MTDS, key expenditure programs in the transport sector include the District Roads Improvement program, the Highlands Highway Rehabilitation project, Community Water Transport project, and the Airport Maintenance project.

3.2.2 Promotion of Income-Earning Opportunities

In addition to creating the environment conducive to export-driven economic growth and development, under the MTDS the Government will also fund carefully selected programs that directly promote income-earning opportunities for Papua New Guineans. In view of the scheduled decline in mining and oil production from established projects over the medium term, there will be an increased emphasis on programs that directly promote economic growth in PNG's renewable resources sector.

In relation to agriculture, expenditure programs will focus on extension services, agricultural research, farmer training programs, demonstration farms, marketing facilities, access to credit and access to up-to-date information on market prices.

A major focus of the MTDS will be the promotion of the successful nucleus estate and smallholder model of agricultural development. The nucleus agro-enterprise model has been very successful in PNG's oil palm sub-sector and it is expected that this success can be replicated for other agricultural commodities. Since 1980, palm oil exports have increased by around 10 per cent per annum in volume terms.

Under this model of development, an agro-business operates a plantation and processing facility and is responsible for securing export markets. The agro-business relies on smallholders to supply additional agricultural produce for processing, and to supply the labour required for its operations. In turn, the agro-business and government support smallholders through the provision of extension services, production inputs, micro-credit, and roads and bridges.

Over the period 2005-2010, the Government will encourage the development of a nucleus agro-enterprise project in each province through the Nucleus Agro-enterprises Project.

As a major new intervention under the MTDS, the Government has introduced the Provincial Economic Impact Program (PEIP) to directly target income-earning opportunities and economic growth. The PEIP will commence operations in 2005 and will provide funding assistance for a range of income-earning activities in every province. The program will also support the development of nucleus agro-enterprises in the production of tree-crops, livestock and fisheries.

The revitalisation of the Rural Development Bank (RDB) will remain a key focus of the Government's program. The RDB should be a principal vehicle for the provision of credit to small and medium scale enterprises in both rural and urban areas.

The revitalisation of the Rural Development Bank is a key objective of the MTDS

However, over the years, the Bank has suffered from poor governance standards that have resulted in a very poor lending record. In order to revitalise the Bank, the Government will introduce comprehensive reforms to address governance and financial management issues, and to re-establish a credible and financially sustainable lending program. A major program to rehabilitate the RDB has been introduced in the 2005 National Budget.

Under the MTDS, the various programs supporting agriculture extension and research will be strengthened, including through improved coordination. It is widely acknowledged that agricultural extension has deteriorated substantially since it was decentralised to provincial governments in the 1970s. However, with the assistance of the Asian Development Bank, a new model of delivering extension services is being piloted and it offers the potential to revitalise extension services throughout the country.

The Smallholder Support Services Pilot Project has transferred the delivery of extension services from Government agencies to non-government organisations, the private sector, voluntary organisations, church groups, educational institutions and innovative and trained farmers. The results of the project to date have been encouraging, and it will remain a priority project under the MTDS.

It should be noted that many of the specific interventions aimed at promoting income-earning opportunities in agriculture, such as extension and research, will be extended to the traditional food crop sector. This policy is consistent with the Government's focus on food security and reflects the fact that over the period 2005-2010, the majority of rural Papua New Guineans will continue to rely on traditional food crops for the bulk of their dietary requirements.

Traditional food crops are also an important source of income and are widely traded in the informal sector. Research into traditional food crops is not only important to improve yields and to develop better methods for processing and storage, but also as a precaution against the onset and spread of diseases. If PNG's traditional staples were inflicted by disease, the impact would be potentially devastating. As such, under the MTDS, funding support to the National Agriculture Research Institute will be a priority.

Ordinary Papua New Guineans in both the rural and urban sectors will benefit from government supported micro-credit and skills training programs. Key programs to be supported include the Microfinance and Employment project and the Employment Oriented Skills Development project.

From 2005 to 2010, the Government will promote the development of industrial parks in key economic regions. Industrial parks are an effective means of meeting manufacturers' requirements for secure land and reliable services in the form of power, water, telecommunications and security. Importantly, the industrial parks program will operate on a commercial basis through a user-pays, rental system and will not represent a drain on the National Budget. As noted in chapter two, an industrial park will be established in the National Capital District to take advantage of competitively priced gas sourced from the PNG-Australia pipeline.

3.2.3 Basic Education.

The importance of basic education and development-oriented informal adult education to PNG's development was discussed in chapter two. A key focus of the MTDS will be to support the continued implementation of reforms aimed at achieving the international goal of Universal Primary Education (UPE). In Papua New Guinea, this goal is reflected in the Government's objective of achieving Universal Basic Education (UBE) by 2015.

Under the UBE objective, Papua New Guinea aims to provide the opportunity for all children to complete nine years of basic education. At the national level, basic education will be supported by a range of programs including implementing curriculum reforms, teacher training, improving infrastructure and rural education facilities, while also ensuring that adequate funds are available to pay for the planned and managed increase in teacher numbers.

It will also be necessary to monitor and contain the unit costs of basic education, to help ensure that the expansion of the system proceeds in an affordable manner. Under the MTDS, the Government will carefully assess whether basic education is being promoted in the most cost-effective manner. Of equal importance is the need to

address the relatively high cost of providing secondary, technical and tertiary education. As shown in table 3.1, sixty-one elementary pupils can be educated at the same cost as one tertiary student.

Table 3.1 Average Unit Costs per Student in 2001

	Average cost per student (K) in 2001*	Number of students affordable per Tertiary student
Elementary	323	61
Primary	698	28.2
Secondary	1,875	10.5
Vocational	1,837	10.7
Technical	7,936	2.5
Distance	123	40.2
Tertiary	17,424	1

Source: GOPNG – PNG Education Sector Affordability Study (2003)

* Funding from all sources, including community contributions.

Modern telecommunications and the Internet have the potential to greatly expand education opportunities for all Papua New Guineans. As shown in table 3.1, the unit cost of distance education is already substantially below that for tertiary, vocational and technical education. By exploiting the opportunities available from the Internet, increased education opportunities can be provided at all levels without adding to budgetary pressures.

3.2.4 Development-oriented Informal Adult Education

Around 50 per cent of adults in Papua New Guinea are functionally illiterate, and as a consequence, are denied the opportunity to participate meaningfully in the development process. In order to address this situation, development-oriented informal adult education is a priority under the MTDS.

During the course of 2005, the Government will examine options to introduce cost-effective programs in this field, including by reviewing the results and performance of the ongoing Employment Oriented Skills Development project. Informal adult education will be development-oriented with a focus on functional literacy and income-generating skills, in order to promote self-help, participatory and commercially sustainable development. Informal adult education will be community based and NGO driven, but will be delivered in partnership with formal education systems through the use of vocational and technical school infrastructure and staff. Its focus must be to maximise the impact of limited resources.

While development-oriented informal adult education has been identified as an expenditure priority under the MTDS, the overall budgetary cost of new programs will be kept to a minimum. This will be achieved by adopting a cost-effective approach that will utilise

existing community infrastructure and develop effective partnerships with community based organisations. The role of government is to provide the strategies, standards and basic curricula materials for life-long learning opportunities for adults and out-of-school youth. Implementation will remain with civil society organisations, such as churches and NGOs, and will rely on the spirit of volunteerism to provide the 'sweat equity' from the community.

3.2.5 Primary Health Care

Investment in primary health care is a fundamental requirement for both social and economic development. Poor people identify good health and access to affordable and quality health services as essential to their well-being. To ensure sustainable progress in health, a multi-sectoral approach is required, including a focus on governance, education, basic infrastructure and economic growth, in addition to health sector specific programs. The Government's sector-wide approach to health also acknowledges the important role played by health sector partners, including the decentralised governments, churches, NGOs and international development partners.

The main health problems facing Papua New Guinea have remained unchanged over the last 15 years and are particularly acute in rural areas. Six diseases, or health issues, that can be treated inexpensively at rural aid posts or outpatient clinics continue to cause 40 per cent or more of deaths of people under 45 years of age. These diseases are pneumonia, malaria, diarrhoea, tuberculosis, measles and anaemia. As well, meningitis, typhoid and the leading causes of maternal mortality account for another 10 per cent of deaths, and can be managed inexpensively in a health clinic by trained health extension officers or nurses.

Six diseases that can be inexpensively treated at rural aid posts cause 40 per cent or more of deaths of those less than 45 years old

The focus for health expenditure over the medium term will remain primary and preventive health care, with priority accorded to services in rural areas. In this regard, there will be a particular focus on aid posts and health centres with appropriately trained staff. Effective supervision, regular community outreach and mobile clinics or patrols, and supplies of drugs and materials, will be the priority activities over the medium term.

Access to a clean water source is a fundamental health issue in both rural and urban areas. Over the period of the MTDS, the Government will focus on ensuring the provision of clean water and sanitation throughout the country.

3.2.6 HIV/AIDS Prevention

As noted previously, the HIV/AIDS epidemic threatens to reverse or seriously compromise social and economic development in Papua New Guinea. The causes and effects of the epidemic are multi-faceted in nature and cannot be addressed solely by health sector interventions. A concerted multi-sectoral strategy is required that involves government agencies, non-government organisations and community based organisations.

While all government agencies will be involved in arresting the epidemic, the expenditure programs will be managed by the National AIDS Council Secretariat (NACS). In particular, expenditure will support the Papua New Guinea Strategic Plan for HIV/AIDS (2004-2008), that has been prepared by the National AIDS Council. The Plan has seven focus areas. These are:

- Treatment, counselling, care and support;
- Education and prevention;
- Epidemiology and surveillance;
- Social and behavioural change research;
- Leadership, partnership and coordination;
- Family and community support; and
- Monitoring and Evaluation.

It is anticipated that government funds allocated to the NACS will increase over the period of the MTDS.

3.2.7 Law and Justice

Law and justice is both a basic human right and a fundamental precondition for a well-functioning market economy. For this reason, law and justice programs have been identified as an expenditure priority under the MTDS.

The rule of law is necessary to maintain the incentive to save, invest and accumulate the goods and assets that underpin higher living standards. Even for semi-subsistence village communities, the rule of law is an essential requirement for encouraging participation in the market economy. If cash incomes and assets (such as coffee trees) are under constant threat of destruction or theft, smallholders are likely to withdraw from the cash economy and revert back to conservative, but low-risk, subsistence livelihoods.

Coffee buyers no longer service areas of the highlands region because of the constant threat of robbery.

More importantly, crime and violence substantially reduce the quality of life in both rural and urban communities, with women being at

particular risk from violent assault. In addition, individual communities and the nation as a whole bear the cost of the destruction of public assets. Local disputes can result in the destruction of community assets such as aid posts and schools, and children are often prevented from attending school for fear of attacks from rival groups. Criminal activity also greatly increases the costs to businesses operating in the formal sector and is a major deterrent to foreign investors.

Over the longer term, many of the underlying causes of criminal behavior, such as the lack of economic opportunities, will be addressed by the MTDS through its promotion of broad-based economic growth. However, over the medium term, more effective law and justice programs will be a priority under the development strategy.

Under the Law and Justice Sector Program, the Government aims to improve sectoral coordination and the functioning of formal law and justice agencies, and to increase the focus upon crime prevention and restorative justice. By coordinating the sector's planning and budgeting systems, the Government can ensure that the law and justice agencies operate effectively as an integrated system. With the adoption of this sectoral approach, greater co-ordination and efficiency in program spending will be achieved.

As part of this approach, a National Coordinating Mechanism (NCM) was established in 2003. This comprises the Chief Executives of the Law and Justice sector, including the Police, Correctional Services, Magisterial Services, National Judicial Staff Services, the Courts, the Ombudsman Commission, Office of the Public Solicitor, and the Department of Justice and Attorney General. The role of the NCM is to implement policy and the sector's Plan of Action.

The largest share of expenditure within the sector over the medium term will be allocated to salaries and operational and maintenance expenses of the key agencies. In addition, significant funding will be provided under the Development Budget through the Law and Justice Sector program, which provides technical support to law and justice agencies, as well as funding infrastructure in the sector.

Law and Justice is also a major focus of the Enhanced Cooperation Program (ECP) agreed between the Governments of Papua New Guinea and Australia. Under the ECP, Australian police, judicial experts and other officials will assist their PNG counterparts in the areas of policing, transport security, border control and justice. The ECP will provide support over a five-year period.

3.3 Supporting Policies and the Enabling Environment

In addition to guiding the allocation of resources in the annual budget, the MTDS also provides the guiding framework for the design of a supporting policy environment that will help promote recovery and development.

Over the years, Papua New Guinea has developed a significant number of sectoral and cross-sectoral policy frameworks that can be regarded as supporting policies. Such policies include the Small and Medium Scale Enterprise Policy; the National Investment Policy; the Industrial Development Plan (IP20); the Information, Communication and Technology Policy; and the National Agricultural Development Strategy.

An appropriate supporting policy environment is particularly important for the expansion of PNG's formal private sector, such as manufacturing, services, mining, petroleum and gas. In this regard, the supporting policy environment is crucial for the Government's objective of promoting a more diversified and higher value-added economy, with manufacturing and service industries accounting for a significantly higher proportion of PNG's Gross Domestic Product.

Unfortunately, over the years many of PNG's supporting policies have effectively become obsolete and do not appropriately reflect the policy direction of the Government. For this reason, and as part of the public sector reform program, departments and agencies will be required to review and refine the relevant sectoral plans to ensure that they remain focused on the Government's Program for Recovery and Development and are consistent with the MTDS. This activity will be carried out in 2005 as part of an agency's corporate planning process. The Public Sector Reform Management Unit and the Department of National Planning and Rural Development will be available to assist agencies in this undertaking.

In broad terms, sectoral policies will need to support the following :

- Political and policy stability;
- The rule of law;
- Macroeconomic stability;
- An outward-looking, market-friendly and transparent trade and investment regime;
- International competitiveness;
- Protection of the vulnerable and disadvantaged;
- Gender equality; and
- Protection of the natural environment.

Political and policy stability is necessary for private investment, especially that of a long-term nature, which is more likely to lead to technology and

skills transfer. The rule of law extends beyond crime prevention to include effective property rights, security of contract and transparent and consistent dispute resolution mechanisms. The rule of law, which must be underpinned by an independent judiciary, is an essential precondition for the development of a robust market economy.

Macroeconomic stability, as reflected by low inflation, exchange rate stability and a sustainable public sector debt and fiscal position, is also a fundamental precondition for robust economic growth. Macroeconomic stability is directly targeted under the MTDS through its objective to enhance fiscal governance. This will be achieved by strengthening PNG's public expenditure management system and by ensuring that fiscal discipline, or the 'hard-budget' constraint, is the starting point for budget preparations (chapter five). Ongoing fiscal discipline will strengthen investor confidence and help underpin increased investment into Papua New Guinea.

Macroeconomic stability is an essential condition for growth and development

Outward looking trade and investment policies and the maintenance of international competitiveness are crucial for the success of the Government's export-driven economic growth strategy. The Government will also ensure that its commitments to the World Trade Organization and the Asia Pacific Economic Cooperation group are fulfilled. This will help ensure Papua New Guinea's integration into the international free trade system.

Streamlining administrative procedures for investment approvals, foreign currency transfers and the issuing of work permits will further improve PNG's investment climate. In this regard, the Government is currently reviewing options for streamlining the regulatory environment and a National Working Group on Impediments to Business and Investment has been established to provide advice on these matters.

Protection of the vulnerable and disadvantaged, and the promotion of gender equity, is both a moral and constitutional obligation for government. Under the Constitution, PNG's first and second National Goals and Directive Principles call for Integral Human Development and Equality and Participation. As noted in chapter two, under the MTDS the focus on gender equity and the needs of the vulnerable will be strengthened.

Protection of the natural environment is also a constitutional obligation and is captured by the fourth National Goal and Directive Principle of Natural Resources and Environment. Ecologically sustainable development is a necessary condition to ensure that PNG's development policies are sustainable over the long term, and it is an explicit objective under the MTDS.

CHAPTER FOUR: STRATEGIC ALLIANCES AND IMPLEMENTATION MECHANISMS

4.1 Strategic Alliances and Partnerships

The previous chapter outlined the key policies that the Government will adopt to achieve the objectives of the MTDS. These include both expenditure and supporting policies. However, as discussed in chapter one, the MTDS 1997-2002 had little impact on the development objectives because it was poorly implemented. For this reason, the MTDS 2005-2010 not only identifies the priorities and policies that are required to achieve the development objectives, it also outlines a new approach that will help to ensure that these policies are implemented.

One of the key reasons for the poor performance of the MTDS 1997-2002 was that ownership of the strategy by key stakeholders was weak, including in relation to the three levels of government. To help strengthen ownership, the new MTDS is the product of extensive consultation. Ownership and implementation will be further improved by developing strategic alliances and partnerships with key stakeholders, and by adopting implementation mechanisms that seek to improve coordination and cooperation.

4.1.1 Provincial and Local Level Governments

An effective strategic alliance encompassing the national, provincial and local level governments, and the district administrations, will be fundamental for the successful implementation of the MTDS. Given that every level of government confronts financial and capacity constraints, the MTDS objectives will only be met if all governments work together in fulfilling their responsibilities. Monies that are wasted on non-priority activities, either at the national or local level, are monies lost to development.

As discussed in chapter one, the deficiencies in the design and implementation of the new Organic Law on Provincial Governments and Local Level Governments has been a major factor impeding service delivery. There remains considerable confusion over the delegation of functional and financial responsibilities under the Law, and implementation and administrative capacity is generally poor at the decentralised level, particularly in relation to the majority of local level governments. The success of the new MTDS in promoting broad-based growth and development will depend critically on these issues being addressed.

The development priorities articulated in the MTDS are consistent with Papua New Guinea's Constitutional goals and, as such, they need to be honoured by all levels of government. While the National Government

has the responsibility for identifying the national development priorities, the decentralised governments are best placed to determine the manner in which those priorities should be addressed, and for identifying the more localised priorities within rural communities. Under the MTDS, national priorities will be addressed according to local circumstances.

To this end, the Government has a number of activities in place that are designed to identify practical solutions to improve the functioning of the decentralised system of government in general, and the system of service delivery in particular. Key issues to be addressed include the allocation of responsibilities across the various levels of government; the capacity of decentralised governments in service delivery; and reform of the system of intergovernmental financing to ensure that it is both affordable and aligned to the transferred responsibilities.

The National Economic and Fiscal Commission (NEFC), for example, is reviewing the system of intergovernmental financing and the allocation of responsibilities across the decentralised government system. In its interim report on intergovernmental financing, the NEFC recommended, among other things, the introduction of function grants that are to be tied to the delivery of priority services (such as road maintenance). In addition, as a component of the public sector reform program, the Government has piloted a new service delivery system under the Services Improvement Program. The lessons learnt from this exercise have been used to improve delivery systems at the national and provincial level.

Commencing with the 2005 Budget, the Government has further strengthened its partnership with the decentralised governments through the introduction of the Provincial Performance Improvement Initiative (PPII), and by expanding the National Development Charter program (discussed below). The PPII is a major initiative that is designed to improve planning, budgeting and implementation capacity at the provincial level. Its end objective is to significantly improve service delivery. With the support of AusAID, the PPII will initially be piloted in three provinces; Central, East New Britain and Eastern Highlands. Following the pilot stage, the initiative will be rolled-out to all provincial governments.

4.1.2 Churches, Community Based Organisations and Non-Governmental Organisations

Strategic alliances will also be strengthened with churches, Community Based Organisations (CBOs) and Non-Governmental Organisations (NGOs). In many of Papua New Guinea's remotest districts and wards, it is these organisations that are at the forefront of service delivery. Churches in particular have a distinguished history of service delivery in Papua New Guinea, especially in relation to education, health and agriculture extension.

While government must ensure that the priority services are delivered to the people, it need not deliver the services directly. Where other agencies are more efficient in delivering services, they should be provided the financial support to do so. Therefore, under the MTDS, the Government will ensure that churches, CBOs and NGOs that have a sound track-record of delivering priority services, are provided with adequate funding support through both the recurrent and development budgets.

The churches, CBOs and NGOs are also active in promoting access to clean sources of water, which is a fundamental health issue. In addition, international donors, especially the EU, are heavily involved in water supply projects. In order to ensure that these programs are coordinated, the Government will develop a national water supply policy, which will involve input from all stakeholders.

4.1.3 Ordinary Papua New Guineans

The Government's relationship with ordinary Papua New Guineans will be crucial for the success of the MTDS. As discussed in chapter two, in order to promote economic growth and development, the Government will create the enabling environment that will empower Papua New Guineans to mobilise their own resources for higher incomes and living standards. The self-interest of Papua New Guineans will be motivated by increasing the rewards for productive effort.

In addition, the Government will also involve ordinary Papua New Guineans in service delivery. This approach is also based on the principle of 'sweat equity', whereby people are expected to contribute their labour and land to support service delivery, including through the construction of school buildings and the ongoing maintenance of rural roads. The tradition of village communities helping themselves through the investment of 'sweat equity' in community projects has generally weakened over the years. To ensure the success of the MTDS, community participation in development projects must be strengthened.

4.1.4 Revitalisation of the Rural Patrol System.

Under the MTDS, the Government will examine options to revitalise rural patrols. In the more remote regions of Papua New Guinea, the cost of ensuring a permanent government presence may prove unaffordable for some time to come. In this regard, rural patrols may be a cost-effective measure to ensure that all Papua New Guineans have access to at least a basic level of government support.

Rural patrols would comprise a small group of dedicated public servants that could deliver basic health care, agricultural extension and even basic education to remote communities. The rural patrols would also deliver essential items to villages, such as basic medicines,

educational materials and new planting material, as better strands of food crops are developed by institutions such as the National Agriculture Research Institute. The rural patrols would help strengthen the partnership between government and remote rural communities.

Options for revitalising the rural patrols will be examined under the MTDS, including in relation to the review of service delivery responsibilities under the new Organic Law on Provincial Governments and Local Level Governments.

4.1.5 International Development Partners

The relationship between the Government and its development partners is very important for the achievement of the MTDS objectives. Each year, international development partners fund approximately 80 per cent of the Development Budget. Since the Development Budget is a principal means for implementing the MTDS, it is fundamental that development partner funds be directed to projects and programs that are consistent with the Government's development priorities.

Over the period of the MTDS, the Government will ensure that new donor projects are not endorsed until they have been rigorously assessed and judged to be consistent with the strategy's priorities. Moreover, the annual review of the Public Investment Program will seek to identify ongoing projects and programs that are not in line with the MTDS, and to consider options to cancel such activities. In addition, the Government will seek to negotiate new types of programs with development partners that will support the strategic alliance approach to development.

4.1.6 The Private Sector

The MTDS is based firmly on the philosophy that the private sector is the engine of growth. As such, it is of vital importance that the Government maintains a good working relationship with the private sector, including foreign investors, and regularly consults with them on the key issues and obstacles confronting businesses.

A key mechanism for institutionalising this process is the Consultative Implementation and Monitoring Council (CIMC), a body that brings together government, the private sector and civil society to discuss key development issues and challenges. The Government recognises the important role of the CIMC in facilitating a productive relationship with the private sector, thus aiding the achievement of the MTDS objectives.

4.2 The National Development Charter and Implementation Mechanisms

Consistent with the need to foster strategic alliances and partnerships, the MTDS will restore the National Development Charter as a major delivery mechanism for priority services. As originally designed, a key objective of the development charter is to mobilise additional resources for the priority activities, including through the application of the Kina-for-Kina principle to the funds allocated to the Rural Action Program/District Support Grant. In addition, the development charter includes a special grant for less developed districts and a planning systems support package, that aims to ensure that the development plans of all levels of government are closely integrated.

Under the MTDS, the original focus of the National Development Charter will be strengthened and augmented by a number of new initiatives. The development charter will also complement the strategic alliance approach to national development. The specific components under the charter are discussed below.

- The District Roads Improvement Program

The District Roads Improvement Program (DRIP) is a new initiative introduced in 2005 and is dependent on provincial governments and the various Joint District Planning and Budget Priorities Committees contributing towards road projects in their respective district or province. Once these funds have been provided, the Government and development partners will match the funds on a Kina-for-Kina basis. This mechanism will help to ensure that all levels of government work in partnership to address this core development priority. It will also ensure that there is improved coordination between the different levels of government.

- Health and Education Improvement Program

In order to further improve coordination and cooperation in the delivery of priority services, over the period of the MTDS, the Government will design similar programs to the DRIP for primary health care and basic education. The District Health Improvement Program (DHIP) and District Education Improvement Program (DEIP) will share a similar service delivery mechanism to the DRIP, including the requirement for counterpart contributions from provincial governments and district administrations.

- Less Developed Districts Grant

The less developed district grant was introduced as an initiative under the development charter to provide additional support to the nation's less

developed areas. For reasons of history and geography, many districts suffer from very low levels of development. However, under the Constitution, the Government has a responsibility to ensure more equitable development.

Funding for the less developed districts grant was introduced in 2004 and will be continued over the medium term. The NEFC and the Department of National Planning and Rural Development have developed a set of objective criteria to identify less developed districts, as well as guidelines for the administration of the grant.

- The Provincial Services Cadetship Program.

As a major new intervention to improve the administrative capacity of the provinces and districts, the development charter will introduce a cadetship program to support tertiary students who are committed to a career in administration. Scholarships will be provided to students for relevant areas of study, who upon graduation, will be appointed as cadet administrators in district administrations. Depending on their abilities, the cadets will follow a career path in the district and provincial administrations, which could ultimately lead to their appointment as provincial or district administrators.

Cadetships will be offered for general administration, financial administration, health administration, and in works and engineering. The cadet scheme will be designed in 2005 and will be introduced in 2006.

- Planning Systems Support Program

This program is designed to support the implementation of a uniform planning system across all levels of government. Specific activities to be funded include the introduction of a National Planning Act and continued funding for the regional training workshops on development planning and database issues.

As noted above, the effective implementation of the MTDS will require that all levels of government work in close consultation. To this end, the uniform planning system will integrate the planning systems of the three levels of government (and those of the district administrations) to improve coordination and reduce duplication. The forthcoming National Planning Act will provide the legal framework for the uniform planning system, including in relation to the standards and systems of service delivery.

- Provincial Medium Term Development Strategies

As a further measure to ensure an integrated approach to development planning and implementation, a MTDS will be prepared for each province. Each provincial MTDS will provide the framework for addressing the national MTDS priorities according to local circumstances. It will help ensure that the national development strategy and the 5-year provincial development plans are harmonised and mutually supporting.

The development of the provincial MTDS will help ensure that all Papua New Guineans have access to the same basic set of goods and services, no matter where they reside. These include:

- Well-maintained roads;
- Income earning opportunities;
- Basic education, including adult literacy, delivered through both the formal and informal education sectors;
- Basic health services;
- Law and justice;
- Water supply and sanitation; and
- Communication systems.

CHAPTER FIVE: RESOURCE MOBILISATION, PUBLIC SECTOR REFORM AND EXPENDITURE MANAGEMENT

5.1 Affordability and the Medium Term Resource Framework

In order for the MTDS to be effective in promoting growth and development, it is important that the priority expenditure programs are affordable and sustainable. As well, a key objective of the MTDS is to ensure that over time, the priority sectors benefit from an increasing share of overall expenditure. Given the fiscal pressures that confront the Government, this will mean that resources will have to be redirected from lower priority activities to the MTDS priorities.

The financing of the MTDS is mapped out by the Medium Term Resource Framework (MTRF). The MTRF is an essential tool for effective public expenditure management (discussed below). It provides the linking framework to help ensure that expenditures are driven by policy priorities and disciplined by budget realities. In this regard, the role of the MTRF is to integrate the 'top-down' resource envelope with the 'bottom-up' sector programs.

The MTRF will help ensure that the Government's expenditure program is driven by policy priorities and disciplined by budget realities.

The 'top-down' resource envelope is determined by the Government's Medium Term Fiscal Strategy (MTFS), which is developed by the Department of Treasury. The primary objective of the MTFS is to maintain ongoing fiscal sustainability by targeting a balanced budget over the medium term and by reducing PNG's public sector debt.

As noted in chapter one, at this point the MTDS, and hence the MTRF, does not map out a detailed whole-of-government expenditure program. As a first step in ensuring the MTDS drives the Government's budgetary process, the sectoral or 'bottom-up' expenditure envelopes under the strategy will initially be limited to the core development priorities (for both the recurrent and development budgets), and other essential commitments of government, such as debt service and transfers to the decentralised governments.

To maintain the MTRF as a relevant analytical, planning and expenditure decision-making tool, the framework will be revised and rolled forward annually in the context of the annual budget. The revision will capture adjustments to the aggregate resource envelope and other changing circumstances.

The indicative MTRF for the period 2005 to 2007 is shown in annex one. It relates the resource requirements for the priority programs and activities to the aggregate level of resources available from revenue, grants and net financing. Table 7 in annex one, shows the

indicative MTRF in aggregate. As indicated in the table, and based on resource availability, total expenditure and net lending (in nominal terms) by the National Government is forecast to decline marginally over the period 2005 to 2007, from K4,777 million to K4,762 million. Nonetheless, under the MTDS the level of resources devoted to the core expenditure priorities is projected to increase from K2,097 million in 2005 to K2,337 million in 2007.

Hence, with resource availability forecast to remain more or less constant in nominal terms, the increase in funding to the priority sectors will require a very vigorous reform program to identify savings from non-priority activities and by achieving cost-efficiencies across the board. The two interrelated vehicles for achieving these savings are the Government's Public Sector Reform program and the Public Expenditure Review and Rationalisation program (discussed below).

The Government's capacity to increase funding to the MTDS priorities will depend on its success in generating savings in other areas.

Over the medium term, increased funding to the priority sectors identified under the MTDS will depend on the success of these two vehicles in identifying savings. If the savings generated prove to be inadequate, the funding to the priority sectors under the MTRF will be adjusted downward accordingly.

5.2 Governance and Public Sector Reform

Good governance is one of the Government's three foundation stones for recovery and development. Over the past decade in particular, the erosion of many of the processes of governance has been a central factor underpinning PNG's disappointing economic and social performance. The goals for good governance, as outlined by the Prime Minister in his address to Parliament in August 2002 are:

Governance is concerned with the way in which the authority of the State is exercised. It encompasses such issues as the process by which governments are elected and held accountable; and the capacity of government to manage resources efficiently, and to formulate and implement sound policies.

- Strengthening the democratic process;
- Political stability at all levels of government;
- Efficient and effective delivery of government services;
- A sound regulatory framework; and
- Transparency and accountability.

These goals will be achieved by improving the processes, systems and structures of government through an all-encompassing program of public sector reform. In this regard, it is important to recognise that when the MTDS refers to expenditure reprioritisation, or to strengthening fiscal discipline, or to improving control over the civil service payroll, or to the

work of the NEFC in reviewing the Organic Law, it is referring to components of public sector reform. All these specific initiatives have a common goal of good governance and share a common strategy of putting in place a more efficient and effective system for government administration, including for the delivery of priority development programs.

The Government's agenda for improved governance also encompasses major reforms to the management, structure and oversight of the public sector. For example, one of the earliest initiatives of the Somare Government to improve oversight of government bodies was the re-establishment of the Public Accounts Committee. As well, consistent with the emphasis on a performance-oriented public sector, all departmental heads and provincial administrators are appointed on merit and are placed on performance-based contracts. The Government is also continuing to support the strengthening of 'watchdog' and legal oversight bodies, to improve efforts to detect and prosecute fraud and corruption in government.

In 2003, and following an extensive period of consultation with stakeholders, the strategies for public sector reform were carefully reviewed. As a result of this review, a revised plan titled A Strategic Plan for Supporting Public Sector Reform in Papua New Guinea 2003-2007 has been approved by the Government to support the MTDS (see box 5.1). Under the revised plan, the highest priority for public sector reform will be given to supporting strategies that:

- Reduce the costs of government, control spending, improve fiscal management and eliminate waste;
- Remove the barriers that impede the efficient funding and allocation of responsibilities among the various levels of government;
- Strengthen the capacity of central government machinery to deliver reforms aimed at the broader systems of government;
- Improve the efficiency and performance of provincial and local level governments in delivering core government services; and
- Improve accountability, compliance and leadership, especially where initiatives in these areas support actions to achieve fiscal responsibility.

A core objective of the public sector reform program is to 'right size' the public sector. The 'right sizing' program, which will be undertaken in 2005, will review the structure of government agencies with a view to making service delivery more affordable and efficient. It will help to focus government activities on its core business.

Box 5.1: Strategies for Supporting Public Sector Reform

<p>Objective 1: A Public Sector with a clear sense of direction</p> <p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Improve support for the NEC, CACC and Chief Secretary in coordination, policy advice, budget planning and analysis, strategic planning, and monitoring implementation of government decisions. • Strengthen the capacity of central agencies to perform their core roles and provide leadership and direction for implementing the Public Sector Reform (PSR) program. • Strengthen corporate planning in departments, agencies and provincial administrations and ensure that plans are based on the MTDS, linked to budgets and organisation improvement. • Improve the quality and availability of management information for decision-making. 	<p><u>Indicators:</u></p> <ul style="list-style-type: none"> • Increased capacity and performance of CACC in providing more effective leadership on whole-of-government issues. • Central agencies demonstrate increased capacity to support their key roles. • Increased and more effective cooperation and coordination across the central agencies. • Increased satisfaction by line agencies and provincial administrations with the services and support of central agencies. • Improved information on and analysis of performance. • All agencies have an effective corporate planning process linked to budget planning and public sector reform. • Improved quality of submissions and analysis in budget preparation and policy development.
<p>Objective 2: Affordable Government</p> <p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Rationalise and streamline the roles and structures of departments and agencies to improve the machinery of government in line with the MTDS, remove duplication, and reduce overhead costs. • Implement reforms to control spending and improve cost-effectiveness, improve the budget process, financial management and procurement practices. • Accelerate implementation of reforms that will secure a proper level of control of salaries and staffing. • Implement strategies to improve the collection of revenue due to the State. 	<p><u>Indicators:</u></p> <ul style="list-style-type: none"> • Progress towards a smaller, streamlined public sector structure and evidence of reduced payroll costs resulting from restructuring. • The core functions of all agencies have been critically reviewed and agreed changes implemented. • Through the implementation of PSR, all agencies are contributing to more economical provision of priority government services. • Fully operational integrated payroll and HR control for all agencies. • Sound processes to support procurement throughout the public sector and spending is strictly controlled. • All agencies, through implementing PSR are enhancing the collection of revenue.

<p>Objective 3: Improving performance, accountability and compliance</p> <p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Implement effective systems for measuring, monitoring and reporting on agency and individual performance. • Support watchdog agencies (particularly the Auditor General and the Public Accounts Committee) and the central agencies to develop effective techniques for assessing compliance and performance. • Implement initiatives to improve the leadership and management skills of senior public servants. • Increase public and stakeholder access to information on performance. • Improve capacity to prevent, investigate and successfully prosecute fraud and corruption in the public sector. • Promote ethical conduct and compliance with the law. 	<p><u>Indicators:</u></p> <ul style="list-style-type: none"> • Performance management systems operating effectively in all agencies and performance information is being used to support PSR. • Increased capacity across government to monitor compliance and performance. • Improved arrangements for leadership skill development and a stronger collegiate approach to managing PSR. • Improved levels of information on agency and whole of government performance routinely provided to Parliament. • Evidence of increasing success in detecting and prosecuting fraud and corruption. • Prevention strategies and improved monitoring are reducing levels of fraud and corruption in areas of high risk.
<p>Objective 4: Improve Service Delivery</p> <p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Improve the Organic Law to create more effective and efficient roles in each of the respective levels of government. • Identify and eliminate impediments to service delivery and devise measures to overcome cultural barriers to organisational improvement. • Reduce ‘red tape’ and government costs for business enterprises and investors. • Promote merit, transparency and equal opportunity within the Public Service • Improve the Government’s response to HIV/AIDS. 	<p><u>Indicators:</u></p> <ul style="list-style-type: none"> • Changes arising from the NEFC review and related work to reduce costs and waste across government and contribute to better delivery of services through local level organisations. • Benchmark levels of service established where feasible and changes against these benchmarks are monitored. • Commerce and industry satisfied with government efforts to reduce cost of regulation. • Evidence that selection, promotion and dismissal systems are contributing to improved performance and management stability. • Evidence that there is full and active cooperation across agencies to combat the spread of HIV/AIDS.

Activities that are not necessary for the delivery of priority services will be abolished and will cease to be a burden on the budget and Papua New Guinean taxpayers.

In this regard, all departments will be reviewed, not only in terms of their programs and staffing arrangements, but also of their equipment and office accommodation. At present, the Government pays high rent for its departments and agencies and as such, an audit of government buildings will be undertaken to ensure that unnecessary rent is not being incurred while government-owned accommodation is left idle.

Improved governance (as well as the strengthening of the law and justice system) is a major focus of the five-year, Enhanced Cooperation Program (ECP) agreed between the Governments of Papua New Guinea and Australia. Under ECP, Australian officials will work with their counterparts in PNG's central agencies to strengthen capacity, reinforce governance principles and improve effectiveness.

The Government's Public Sector Reform program will play an integral role in the implementation of the MTDS by ensuring that the administrative structure of government conforms to the development priorities. As well, under the MTDS, priority programs will be enhanced while lower priority programs will be scaled-down or abolished altogether. The public sector machinery will be restructured to reflect these changes.

5.2.1 The Privatisation Program

While the privatisation program will continue under the Public Sector Reform program, the long-term interests of the Papua New Guinean community will take priority over the short-term financing requirements of the National Budget. In this regard, the privatisation program is to proceed on the basis of a public-private partnership approach, whereby the key objectives are enhanced operational efficiency, and improved and expanded service delivery, including through a community services obligation framework.

Accordingly, the responsibilities of the Independent Public Business Corporation have been changed from that of a short-term privatisation entity to that of a long-term asset manager. Its mandate is to ensure that State-owned assets are rehabilitated and managed efficiently and that service levels are improved. The partial or full privatisation of public enterprises will proceed only after it has been demonstrated, by careful analysis, that it is clearly in the public interest.

5.3 Public Expenditure Review and Rationalisation

As a component of the Public Sector Reform program, the Public Expenditure Review and Rationalisation (PERR) program will be a key vehicle for generating the savings and cost-efficiencies necessary for the

successful implementation of the MTDS. The PERR, which commenced in 2003, is focussed on four broadly defined themes. These are:

- The Road Map to Fiscal Sustainability. The key objective is to assess the magnitude of the fiscal adjustment required over the medium term in order to ensure ongoing fiscal sustainability and macroeconomic stability. As noted, the major output is PNG's Medium Term Fiscal Strategy (MTFS). The MTFS establishes the aggregate expenditure ceiling for annual budgets over a rolling three-year period and this ceiling has been incorporated in the MTDS.
- Adjustment and Prioritisation of Expenditures. The key objective is to improve the quality of government expenditure by redirecting scarce financial resources to the priority expenditure programs identified in the MTDS.
- Civil Service Size and Payroll. The key objective is to ensure that PNG's civil service payroll system is fully integrated into, and controlled by, the Government's budgetary system. Very large cost savings can potentially be achieved by the removal of 'ghost workers' and by rationalising other elements of the civil service remuneration package. Establishing budgetary control over wages and salaries is a necessary condition for a meaningful expenditure adjustment and reprioritisation program.
- Restoring the Integrity of Budget Institutions and Systems. The key objective is to improve the effectiveness and efficiency of PNG's budgetary processes and systems. The identification of measures for improved budget execution will reduce costs while measures to strengthen the integrity of the budget system will reduce the scope for expenditure overruns and ad-hoc expenditure reallocations.

5.4 Effective Public Expenditure Management

The Medium Term Fiscal Strategy, the Medium Term Resource Framework, the Public Sector Reform program and the Public Expenditure Review and Rationalisation program are all essential initiatives that constitute effective Public Expenditure Management (PEM). Under the Government's Program for Recovery and Development, and consistent with the MTDS, these initiatives have been institutionalised as ongoing activities of government. This will help to ensure that the core principles of expenditure management remain central to the decision-making processes of government.

An effective PEM system will help to ensure that the integrity of the budgetary process is not undermined by ad-hoc expenditure decisions that are based on narrow interests rather than the national interest. All stages of PNG's budgetary process will be based on the three core elements of effective PEM: fiscal discipline; strategic prioritisation of resources; and cost-effective implementation of programs and projects. Where necessary, the Government will introduce institutional rules designed to strengthen the application of this system (such as fiscal responsibility measures).

Effective PEM emphasises:

- *Affordability*
- *A quality Expenditure Program*
- *Operational Efficiency*

In brief, the three key elements of an effective PEM system require that the aggregate level of government expenditure is determined by what is affordable over the medium term; that expenditure programs are based firmly on the development strategy and policy priorities of government; and that program implementation achieves the required outcomes in the most cost-effective manner.

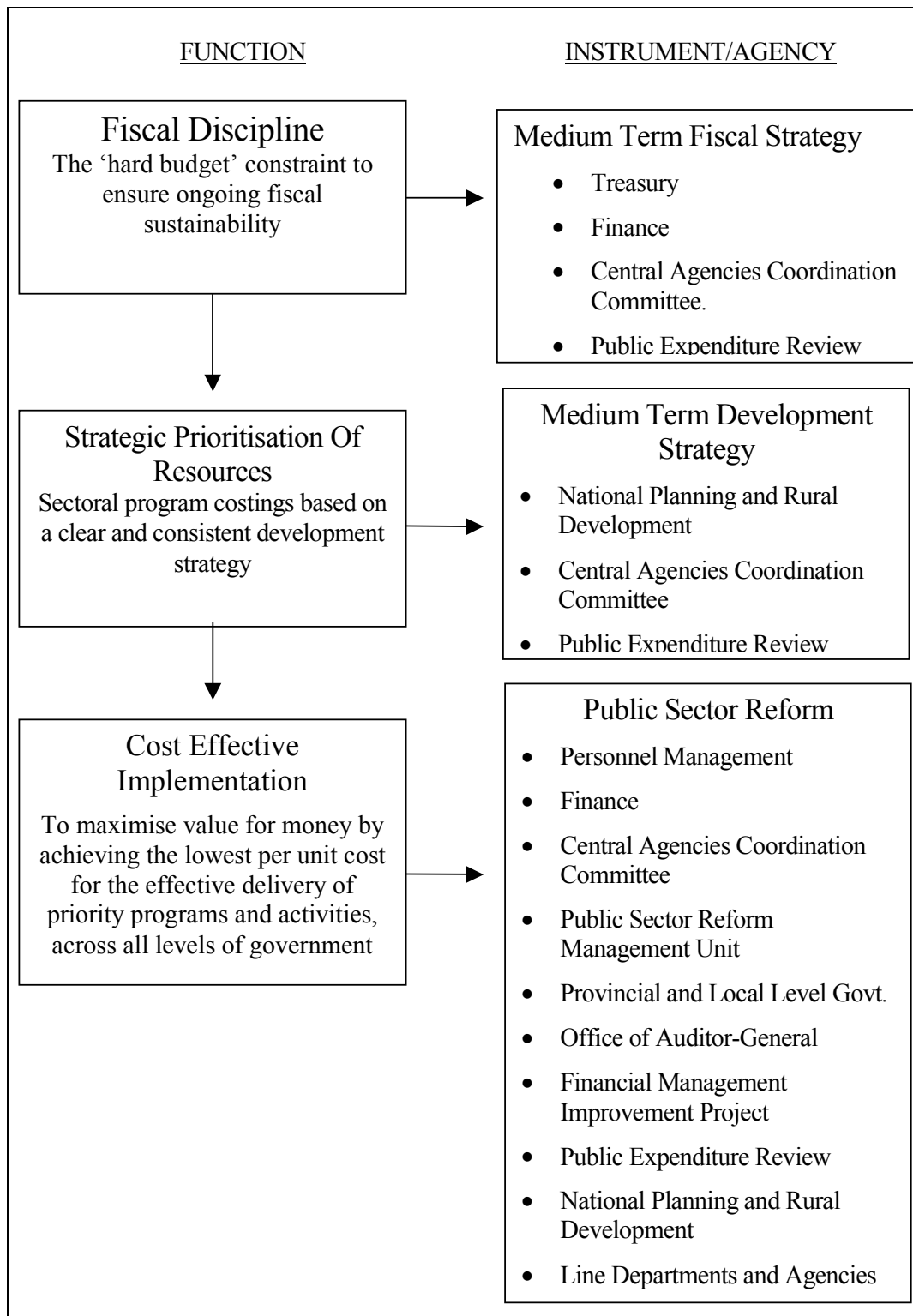
Diagram 5.1 below provides an outline of the key government agencies responsible for managing and upholding the requirements for fiscal discipline, strategic prioritisation and cost-effective implementation. In addition to the agencies listed, PNG's oversight institutions such as the Public Accounts Committee, Auditor-General, Public Service Commission and the NEFC also play a very important role in ensuring the overall integrity of the PEM system.

Macroeconomic stability is a fundamental precondition for ongoing economic growth, social development and poverty reduction. Macroeconomic stability will also underpin greater certainty over resource availability and, as a consequence, will enhance the capacity of line agencies to plan and implement priority programs within a medium term framework. Under the MTDS, macroeconomic stability will be promoted through the adoption of a credible budget constraint, as determined under the Medium Term Fiscal Strategy.

The strategic prioritisation of scarce budgetary resources lies at the heart of the MTDS. As noted, strategic prioritisation requires that resources are allocated to programs that have the greatest impact on the Government's development goals. By definition, this process will require the Government to choose between competing expenditure proposals submitted by departments and other entities. Planning will be ineffective if the budgetary process avoids the responsibility of choosing between competing programs and activities.

Prioritisation is the budgetary discipline of choosing between programs to be funded.

Diagram 5.1: Public Expenditure Management in Papua New Guinea



As well, in selecting between competing expenditure proposals, careful consideration will be given to the appropriate role of government in promoting growth and development. Scarce government resources will

not be used to fund activities that are best left to the private sector. Rather, under the MTDS, the Government will focus on creating the enabling environment necessary for the private sector to prosper.

Under the MTDS, all spending proposals will be assessed against the competing priorities and the hard budget constraint. As underlined by PNG’s disappointing record in promoting economic growth and social development, the cost of poor expenditure decisions is very high. Even relatively modest amounts of money devoted to low priority expenditures have a high opportunity cost, as indicated by table 5.1.

Table 5.1: Strategic Prioritisation and Outcomes in Health

Potential Development Outcomes for K500,000 in the Health Sector:
<ul style="list-style-type: none"> • 7,937 children below one year of age treated with required vaccinations, or • 36,740 children under 5 treated for malaria, or • 4,219 mothers treated to a safe, supervised birth delivery in a health centre, or • 9,320 people successfully treated for Tuberculosis

Source: Department of Health

The third level of the PEM framework focuses on the need for programs to be delivered in the most cost-effective manner. In this way, a given level of financial resources will be able to fund a greater volume of priority goods and services. This ‘value for money’ tier of PEM encompasses government-wide and sector-specific systems and initiatives.

Cost-effective implementation will mean that services can be made available to a greater number of Papua New Guineans

Under the public sector reform program, there are a number of initiatives aimed at achieving cost-effective implementation, including the Financial Management Improvement Project, the Payroll and Human Resources System Project and the PERR. These initiatives will remain a central focus of the Government under the MTDS.

In addition to the above, the emphasis on strengthening strategic alliances will also reduce the cost of service delivery to the National Government. Under the National Development Charter, Members of Parliament and the decentralised governments will be required to contribute to the cost of key initiatives such as the DRIP. Strategic alliances with local communities will be an important ‘cost-sharing’ mechanism for local services. Currently, local communities must bear the responsibility for the construction and maintenance of elementary schools. As part of the MTDS, consideration will be given to extending this principle to aid posts and other community infrastructure.

CHAPTER SIX: MONITORING AND EVALUATION

6.1 Role of Monitoring and Evaluation

The monitoring and evaluation of the implementation of priority programs and projects forms an integral element of managing and coordinating the MTDS. It is necessary to ensure that programs and projects are implemented within the planned time period and within budget, and more importantly, that they achieve their objectives and contribute to the MTDS goals. The monitoring process also provides a vehicle for compiling the data and information required for a comprehensive evaluation of the MTDS 2005-2010, that will be conducted prior to the preparation of PNG's next development strategy.

By monitoring the implementation of the MTDS, the Government will better understand the reasons for its successes and failures. In this regard, the Government will be better placed to build on the successes, while realigning its interventions to address the failures. The Government is also accountable to its partners under the strategic alliance approach. Having credible data and information on the successes and failures of the MTDS will equip the Government to account for its performance, as well as allowing it to call the partners into account where necessary.

The MTRF, quarterly budget reviews and the annual budget documents will be the key tools for monitoring the financing of the MTDS as a whole, and the allocation of funding to the expenditure priorities. The monitoring process will help to identify non-performing or poorly performing programs that may require corrective measures. Alternatively, the Government may decide to suspend the program in question and redirect the funds to better performing programs.

As well as monitoring the implementation of individual projects and programs, monitoring budget allocations and expenditure will also be important in order to determine the extent to which the MTDS is driving the budgetary process. This will reflect on the effectiveness of the overall public expenditure management system and help to highlight issues that may require corrective action by the Government.

6.2 Performance Indicators and Targets

Papua New Guinea is a signatory to the Millennium Declaration of the United Nations General Assembly and is therefore committed to achieving the Millennium Development Goals (MDGs). The MDGs set the objectives for global development over the period 2000 to 2015. While the timeframe covered by the MDGs is longer than the period of the MTDS, the goals and objectives are consistent. As such, the MDGs will feature prominently in the finalisation of indicators and

targets for the development strategy. The eight goals of the Millennium Declaration are:

- Eradicate extreme poverty and hunger;
- Achieve universal primary education;
- Promote gender equity and empowerment of women;
- Reduce child mortality;
- Improve maternal health;
- Combat HIV/AIDS, malaria and other diseases;
- Ensure environmental sustainability; and
- Develop a global partnership for development.

The Government is preparing targets for the MDGs that are specific for Papua New Guinea, and reflect the nation's current stage of development and particular constraints. Once finalised by the Government, these longer-term targets will be adopted for the purpose of defining the performance indicators and targets over the period covered by the MTDS 2005-2010. The MDG targets for Papua New Guinea are outlined in Table 6.1 below.

Reflecting the MDG targets, the specific performance indicators for the MTDS will be prepared by the relevant line departments and agencies that are responsible for translating the development priorities into detailed sectoral programs and policies. This activity will be completed in 2005, and will be closely monitored and appraised by the Department of National Planning and Rural Development and the Central Agencies Coordination Committee. Baseline data will also be compiled for the purpose of assessing progress over the implementation period.

For a number of key sectors, such as health and education, relevant performance indicators have already been prepared and incorporated into the respective sectoral plans (such as the National Education Plan 2005 – 2014). In this regard, the role of the implementing agencies is to ensure that the performance indicators and targets are consistent with both the MDG targets and the level of resources projected under the MTRF.

6.3 Role of Key Departments and Agencies in Monitoring and Evaluation

All key stakeholders have a role to play in ensuring that the objectives of the MTDS are achieved. National departments and agencies, provincial and local level governments, non-governmental organisations, community based organisations and other stakeholders involved in the implementation of the MTDS, will be required to participate in the process of monitoring and evaluation.

The parameters and tools for participation in this process include the following:

- Quarterly reporting on the implementation status of individual programs and projects;
- Yearly reports on the same;
- Special reports on issues that impact either positively or negatively on the project;
- Project Completion Reports;
- Evaluation of the annual budget of the national and provincial governments; and
- Evaluation of progress against the MTDS performance indicators and targets.

Overall responsibility for monitoring and evaluation of the MTDS will reside with the Department of National Planning and Rural Development. The Department will report directly to the Central Agencies Coordination Committee and, through it, to the National Executive Council.

Table 6.1 : MDG National Goals and Targets

GOAL 1 ERADICATE EXTREME POVERTY AND HUNGER	
TARGETS	INDICATORS
Target 1 Decrease the proportion of people below the poverty line by 10 per cent by 2015, using the 1996 national average figure of 30 per cent below the <u>lower</u> poverty line as the benchmark figure	1. Percentage of people below the <u>lower</u> poverty line (using the headcount method) 2. Poverty gap ratio (incidence x depth of poverty) 3. Share (percentage) of poorest quintile in national consumption 4. Gini coefficient
Target 2 By 2015, increase by 10 per cent the total amount of agriculture commercially produced and by 34 per cent the amount of subsistence agriculture production	5. Underweight births as a percentage of total births 6. Percentage of underweight children under five years of age 7. Percentage of people below minimum level of dietary energy consumption 8. Percentage of total deaths associated with malnutrition 9. Percentage of children under age 5 with height-for-age z-score below minus two 10. Percentage of children under age 5 with weight-for-age z-score below minus two
GOAL 2 ACHIEVE UNIVERSAL PRIMARY EDUCATION	
Target 3 Achieve a gross enrolment rate of 85 per cent at the primary level by 2015	11. Gross Enrolment Rate (percentage) in Grade 1 (pre-reform structure)
Target 4 Achieve a Cohort Retention Rate of 70 per cent at the primary level by 2015	12. Cohort Retention Rate between Grade 1 and Grade 6 (pre-reform structure)
Target 5 Achieve an (indirectly measured) Youth Literacy Rate of 70 per cent by 2015	13. Indirectly measured Youth Literacy Rate (age 15-24) (percentage) 14. Indirectly measured Adult Literacy Rate (over age 15) (percentage)
GOAL 3 PROMOTE GENDER EQUALITY AND EMPOWER WOMEN	
Target 6 Eliminate gender disparity at the primary and lower secondary level by 2015, and at the upper-secondary level and above by 2030	15. Sex ratio (males per 100 females) of students in primary, secondary and tertiary education 16. Sex ratio (males per 100 females) of literate 15-24 year olds 17. Sex ratio (males per 100 females) of literate adults (over age 15) 18. Percentage of persons aged 10 and over in wage employment in the non-agricultural sector that are women 19. Percentage of persons age 10 and over with money income from any source that are women. 20. Percentage of seats in National Parliament held by women.
GOAL 4 TO REDUCE CHILD MORTALITY	
Target 7 To reduce the Infant Mortality Rate to 44 per thousand by 2015	21. Infant mortality rate (per 1000 live births) per year
Target 8 Reduce the Under Five Mortality Rate to 72 per thousand by 2015	22. Under Five Mortality Rate (per 1000 live births) per year 23. Percentage of 1 year old children immunized against measles per year 24. Percentage of 1 year old children immunized with Triple Antigen (3 rd dose) per year

GOAL 5 TO IMPROVE MATERNAL HEALTH	
Target 9 Decrease the Maternal Mortality Rate to 274 per 100,000 live births by 2015	25. Maternal Mortality Rate per 100,000 live births by year 26. Percentage of pregnant women attending antenatal clinics 27. Percentage of births attended by skilled health personnel including village birth assistants
GOAL 6 COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES	
Target 10 Have controlled by 2015, and stabilised by 2020, the spread of HIV/AIDS.	28. Incidence rate of HIV/AIDS per 1,000 per year by sex 29. Prevalence rate (per cent) of HIV/AIDS by sex 30. Prevalence rate (per cent) of HIV/AIDS for persons aged 15-49 by sex 31. Case fatality rate (per cent) of AIDS by sex 32. Prevalence rate (per cent) of HIV/AIDS for 15-24 year old pregnant women 33. Number of children under age 15, orphaned by HIV/AIDS per year.
Target 11 Have controlled by 2015, and either stabilised or reversed the incidence of pneumonia, malaria and other major diseases by 2020	34. Incidence rate of pneumonia, TB and malaria per 1,000 per year by sex 35. Prevalence rate (per cent) of pneumonia, TB and malaria by sex 36. Prevalence rate (per cent) of pneumonia, TB and malaria for persons aged 15-49 by sex 37. Case fatality rate (per cent) of pneumonia, TB and malaria by sex 38. Prevalence rate (per cent) of pneumonia, TB and malaria for 15-24 year old pregnant women 39. Number of children under age 15, orphaned by pneumonia, TB and malaria per year.
GOAL 7 ENSURE ENVIRONMENTAL SUSTAINABILITY	
Target 12 Implement the principles of sustainable development through sector specific programs by 2010 and no later than 2015	40. Percentage of land area covered by primary forest 41. Primary forest depletion rate (percentage) per year 42. Re-forestation rate (percentage) per year 43. Percentage of land area protected to maintain biological diversity 44. Percentage of marine area protected to maintain biological diversity 45. Percentage of land area rehabilitated to ensure biodiversity (mines) 46. GDP per unit of energy use (as proxy for energy efficiency) 47. Carbon dioxide emissions (per capita)

<p>Target 13 By 2020, increase commercial use of land and natural resources through improvements in environmentally friendly technologies and methods of production.</p>	<p>48. Percentage of land used for commercial purposes 49. Percentage of cultivable land used for agricultural production 50. Agricultural exports as a percentage of all exports 51. Value of agricultural exports as a per cent of total GDP 52. Value of non-agriculture exports as a per cent of GDP 53. Percentage of commercial operations using sustainable practices</p>
<p>Target 14 Increase to 60 per cent the number of households with access to safe water by 2010 and to at least 85 per cent by 2020 (as per definition from DOH)</p>	<p>54. Percentage of districts that have implemented a water policy 55. Total meters of operating water pipes 56. Total number of clean water storage tanks and wells in use 57. Number of water pumps per district 58. Litres of water supplied to users 59. Percentage of households with sustainable access to safe water source 60. Percentage of households connected directly to safe water supply (pipe/tank)</p>
<p>Target 15 By 2020, to have achieved a significant improvement in the lives of disadvantaged and vulnerable groups in urban areas</p>	<p>61. Rural to urban net migration rate (percentage) 62. Percentage of households with access to electricity, safe water and sanitation, health and education services, by geographic sector, as well as by census unit (CU) type in urban areas 63. Unemployment rate (percentage) by geographic sector and by sex 64. Urban crime rate (percentage) including prostitution and drug trafficking 65. Ratio of urban/peri-urban households with access to secure tenure 66. Percentage of population classified as vulnerable or disadvantaged by geographic sector 67. Percentage of households using wood as their primary energy source, by geographic sector.</p>

ANNEX ONE: INDICATIVE MEDIUM-TERM RESOURCE FRAMEWORK 2005-2007

Table 1: Primary and Preventative Health and HIV/AIDS Prevention

Program	2005 K millions		2006 K millions		2007	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
National Department						
<u>Programme 1: Administration</u>						
Monitoring/Review/Supervision	0.4	3.2	0.4	3.2	0.4	3.2
<u>Programme 2: Urban Health</u>						
Hospitals (inc. medical equipment)	19.9	3.4	19.9	3.4	19.9	3.4
<u>Programme 3: Rural Health Facilities</u>						
Facility Maintenance	0.0	11.9	0.0	11.9	0.0	11.9
<u>Programme 4: Family Health Services</u>						
Immunisation	10.8	7.4	10.8	11.1	10.8	16.6
Safe motherhood/Family planning	9.0	11.4	8.9	11.3	8.8	11.2
<u>Programme 5: Disease Control</u>						
Malaria prevention	3.5	21.4	3.3	27.0	3.1	34.0
STI/HIV/AIDS inc. condom (DoH)	3.3	1.2	4.3	1.2	5.6	1.2
National AIDS Council	1.5	10.5	2.0	30.0	2.0	30.0
<u>Programme 6: Environmental Health</u>						
Water Supply and Sanitation	0.2	0.5	0.2	0.5	0.2	0.5
<u>Programme 7: Health Promotion</u>						
Health Promotion	0.4	2.7	0.4	2.7	0.4	2.7
<u>Programme 8: Medical Supplies</u>						
Other priority medical supplies	25.7	34.1	27.7	33.6	29.8	33.1
<u>Programme 9: HRD</u>						
Pre-service training	2.4	2.4	2.4	2.4	2.4	2.4
<u>Programme 10: Support Services</u>						
Medical Research	2.3	3.0	2.3	3.0	2.3	3.0
Subtotal	79.4	113.0	82.6	141.3	85.7	153.2
		192.4		223.9		238.9
Provincial Payments						
Provincial/District Goods and Services	25.5	8.3	28.5	8.3	31.8	8.3
Health Workers' salaries	65.0	0.0	70.3	0.0	76.0	0.0
Church Health Workers Wages	28.6	0.0	28.6	0.0	28.6	0.0
Subtotal	119.1	8.3	127.4	8.3	136.4	8.3
		127.4		135.7		144.7
Total Resources Required	198.5	121.3	210.0	149.7	222.1	161.5
		319.8		359.6		383.6

Table 2: Basic Education

Program	2005 K millions		2006 K millions		2007 K millions	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
National Departments/Agencies						
Curriculum Reform	0.0	5.8	0.0	5.8	0.0	5.8
Education Capacity Building	0.0	19.5	0.0	60.0	0.0	60.0
Education Training (EDF9) and HRD	0.0	17.4	0.0	20.0	0.0	20.0
Basic Education and Development Project	0.0	15.0	0.0	20.0	0.0	20.0
Improvement of Rural Primary Facilities	0.0	2.5	0.0	6.0	0.0	6.0
Education CASP (School Supplies)	0.0	2.9	0.0	2.9	0.0	2.9
Primary & Secondary Teacher Education**		14.5		14.5		14.5
Elementary Teacher Education Support Project (Phases I & II)**	0.0	3.5	0.0	3.5	0.0	3.5
District Education Improvement Programme ***	0.0	10.0	0.0	15.0	0.0	20.0
Education Subsidies	55.4	0.0	64.3	0.0	69.7	0.0
NCD Schools	14.6	0.0	13.9	0.0	13.1	0.0
Teacher education (pre- and in-service)	11.8	0.0	16.2	0.0	22.2	0.0
Curriculum Development	0.7	0.0	0.7	0.0	0.7	0.0
Production and distribution of curriculum materials	0.7	0.0	0.8	0.0	1.0	0.0
Inspections and Guidance	2.2	0.0	2.2	0.0	2.2	0.0
Administration	9.1	0.0	11.5	0.0	14.5	0.0
Primary Education	0.4	0.0	0.6	0.0	0.9	0.0
Subtotal	94.9	91.1	110.2	147.7	124.3	152.7
		186.0		257.9		277.0
Provincial Payments						
Teachers' salaries (ex NCD, inc leave fares and allowa	314.8	0.0	329.9	0.0	340.8	0.0
Education Subsidies/Function Grant	20.3	0.0	20.8	0.0	21.4	0.0
Subtotal	335.1	0.0	350.7	0.0	362.2	0.0
		335.1		350.7		362.2
Total Resources Required	430.0	91.1	460.9	147.7	486.5	152.7
		521.1		608.6		639.2

Table 3: Development Oriented Adult Informal Education

Program	2005 K millions		2006 K millions		2007 K millions	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Skills Development and Employment Project	0	7.1	0	7.1	0	7.1
Vocational Education	3.3	0	4.2	0	5.4	0.0
Total Resources Required	3.3	7.1	4.2	7.1	5.4	7.1
		10.4		11.3		12.5

Table 4: Infrastructure Rehabilitation and Maintenance

Program	2005 K millions		2006 K millions		2007 K millions	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
National Departments/Agencies						
Department of Works						
National Roads Maintenance (GoPNG)	2.4	14.0	2.5	20.0	2.6	26.0
Provincial Road Maintenance (GoPNG)	2.3	10.0	2.3	10.0	2.3	12.0
Road Maintenance Project (WB)	1.4	43.5	1.5	30.0	1.6	30.0
Five Highlands Provinces Road Maintenance	2.7	70.0	2.8	30.0	2.9	0.0
National Roads and Bridges Maintenance	3.0	68.0	3.1	86.0	3.2	86.0
Highlands Highway Maintenance (AusAID)	1.1	20.0	1.2	20.0	1.3	20.0
Highlands Highway Rehabilitation	0.0	5.0	0.0	7.0	0.0	10.0
Highlands Highway Infrastructure Tax Credit	0.0	50.0	0.0	60.0	0.0	70.0
Bridge Replacement Project (JICA)	1.4	20.0	1.5	20.0	1.6	20.0
Road Asset Management	2.5	1.2	2.6	1.5	2.7	1.9
National Roads Regravelling and Sealing	0.0	3.3	0.0	3.3	0.0	3.3
JICA Highlands Highway Bridge Replacement	0.0	13.1	0.0	13.1	0.0	13.1
Bridge Replacement and Rehabilitation	0.0	0.2	0.0	0.2	0.0	0.2
District Roads Improvement Program	0.0	20.0	0.0	30.0	0.0	40.0
Department of Transport						
Maritime Navigational Aids	0.0	21.0	0.0	25.0	0.0	25.0
ADB Community Water Transport	0.0	17.0	0.0	25.0	0.0	25.0
Civil Aviation Authority						
Airport Maintenance (AusAID)	0.0	2.4	0.0	2.4	0.0	2.4
Communication Upgrading and Maintenance	0.0	12.1	0.0	12.1	0.0	12.1
Subtotal	16.8	390.8	17.5	395.6	18.2	397.0
		407.6		413.1		415.2
Provincial Transfers						
Bougainville Wharves	0.0	0.9	0.0	15.0	0.0	15.0
Bougainville Trunk Road Maintenance	0.0	7.1	0.0	7.1	0.0	7.1
Bougainville Agricultural Feeder Road	0.0	1.3	0.0	1.3	0.0	1.3
Gazelle Road Restoration	0.0	14.5	0.0	14.5	0.0	14.5
Provincial Infrastructure/Transport Grant	12.4	0.0	12.8	0.0	13.1	0.0
Subtotal	12.4	23.8	12.8	37.9	13.1	37.9
		36.2		50.7		51.0
Total Resources Required	29.2	414.6	30.3	433.5	31.3	434.9
		443.8		463.8		466.2

Table 5: Income Earning Opportunities

Program	2005 K millions		2006 K millions		2007 K millions	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
National Departments/Agencies						
General						
Smallholder Support Services Pilot Project	0.0	2.7	0.0	2.7	0.0	2.7
National Agirculture Development Plan	0.0	0.4	0.0	0.2	0.0	0.0
Nucleas Agro-Enterprises Project	0.0	8.0	0.0	8.0	0.0	8.0
FPDC Fruit and Vegetable Marketing	0.0	3.5	0.0	4.8	0.0	4.8
NARI-ACIAR Research	0.0	4.8	0.0	5.0	0.0	6.0
NARI-ACNARS Research	0.0	4.3	0.0	5.0	0.0	6.0
Recapitalisation of Rural Development Bank	0.0	6.0	0.0	11.0	0.0	15.0
PNG/ADB Microfinance and Employment	0.0	12.3	0.0	12.0	0.0	12.0
Awareness on customary land registration	0.0	0.4	0.0	0.5	0.0	0.5
Konebada Petroleum Industrial Park	0.0	0.7	0.0	0.7	0.0	0.7
Provincial Economic Improvement Program	0.0	10.0	0.0	10.0	0.0	10.0
Small Project Scheme	0.0	0.5	0.0	0.5	0.0	0.5
Rural Livelihoods Project	0.0	0.4	0.0	0.4	0.0	0.4
Rural Industries	0.0	0.1	0.0	0.1	0.0	0.1
SME Development	0.0	1.0	0.0	1.0	0.0	1.0
Start your business/improve your business	0.0	1.5	0.0	1.5	0.0	1.5
National Food Security Program	0.0	0.8	0.0	0.8	0.0	0.0
Subtotal	0.0	57.3	0.0	64.2	0.0	69.2
Cocoa and Coconut						
Angoram Cocoa and Coconut	0.0	0.3	0.0	0.3	0.0	0.3
Extension Services	0.0	1.0	0.0	1.0	0.0	1.0
Madang Smallholder Development Project	0.0	0.3	0.0	0.3	0.0	0.3
Research	0.0	0.3	0.0	0.5	0.0	1.0
Cocoa Stabex	0.0	0.1	0.0	0.1	0.0	0.0
Subtotal	0.0	2.0	0.0	2.2	0.0	2.6
Coffee						
Smallholder Coffee Rehabilitation	0.0	0.5	0.0	0.5	0.0	0.5
Grower-owned marketing	0.0	1.2	0.0	1.4	0.0	1.6
Freight Assurance	0.0	0.5	0.0	0.6	0.0	0.7
Subtotal	0.0	2.2	0.0	2.5	0.0	2.8
Palm Oil						
OPRA Research	0.0	0.3	0.0	0.3	0.0	0.3
OPRA Stabex	0.0	0.2	0.0	0.2	0.0	0.2
Subtotal	0.0	0.5	0.0	0.5	0.0	0.5
Forestry						
Log export monitoring	0.0	4.0	0.0	5.0	0.0	6.0
Eco-Forestry Program	0.0	7.0	0.0	4.0	0.0	3.0
Resource Inventory	0.0	1.0	0.0	3.0	0.0	3.0
Forestry and Conservation Project	0.0	14.0	0.0	14.0	0.0	14.0
Subtotal	0.0	26.0	0.0	26.0	0.0	26.0
Fisheries						
ADB Coastal Fisheries	0.0	5.7	0.0	4.0	0.0	0.0
Institutional Strengthening Fisheries College	0.0	0.9	0.0	0.0	0.0	0.0
EU Coastal Fisheries Program	0.0	3.0	0.0	1.5	0.0	1.0
Marine Industrial Park	0.0	0.6	0.0	2.0	0.0	4.5
Maritime Boundaries Delimitation	0.0	0.5	0.0	1.0	0.0	1.5
Subtotal	0.0	10.6	0.0	8.5	0.0	7.0
Grand Subtotal	0.0	98.6	0.0	103.9	0.0	108.1
		98.6		103.9		108.1
Provincial Transfers						
Derivation Grant	11.8	0.0	12.1	0.0	12.4	0.0
Subtotal	11.8	0.0	12.1	0.0	12.4	0.0
		11.8		12.1		12.4
Total Resources Required	11.8	98.6	12.1	103.9	12.4	108.1
		110.4		116.0		120.5

Table 6: Law and Justice

Program	2005 K millions		2006 K millions		2007 K millions	
	Recurrent	Development	Recurrent	Development	Recurrent	Development
Multisectoral						
Law and Justice Sector Program	0.0	116.5	0.0	110.0	0.0	110.0
Enhanced Cooperation Program	0.0	388.2	0.0	440.0	0.0	440.0
Justice Advisory Group	0.0	4.3	0.0	6.0	0.0	6.0
Justice Program Development	0.0	0.6	0.0	0.5	0.0	0.5
Subtotal	0.0	509.6	0.0	556.5	0.0	556.5
Police						
Police Barracks Maintenance	0.0	5.0	0.0	4.0	0.0	3.0
Prevention and Detection of Crime	80.0	0.0	83.0	0.0	86.1	0.0
Subtotal	80.0	5.0	83.0	4.0	86.1	3.0
Attorney General						
Community Justice	3.0	0.0	3.0	0.0	3.0	0.0
Criminal Prosecution and Legal Aid	5.0	0.0	5.0	0.0	5.0	0.0
Subtotal	8.0	0.0	8.0	0.0	8.0	0.0
Correctional Services						
Prison administration and Improvement	24.0		25.0		26.0	0.0
Makurumanda Jail	0.0	0.3	0.0	2.0	0.0	2.0
Subtotal	24.0	0.3	25.0	2.0	26.0	2.0
Judiciary and Magisterial						
Administration of Justice	38.0	0.0	38.0	0.0	38.0	0.0
Court House Construction	0.0	0.3	0.0	1.0	0.0	1.0
Subtotal	38.0	0.3	38.0	1.0	38.0	1.0
Ombudsman Commission						
Complaints and Investigations	1.7	0.0	1.7	0.0	1.7	0.0
Leadership Branch	1.4	0.0	1.4	0.0	1.4	0.0
Other expenditure	5.8	0.0	5.8	0.0	5.8	0.0
Subtotal	8.9	0.0	8.9	0.0	8.9	0.0
Total Resources Required	158.9	515.2	162.9	563.5	167.0	562.5
		674.1		726.4		729.5

Table 7: Indicative Medium Term Resource Framework 2005-2007

All data K millions	2005	2006	2007
MTDS PRIORITY AREAS			
Health			
National	192.4	223.9	238.9
Provincial Payments	127.4	135.7	144.7
Basic Education			
National	186.0	257.9	277.0
Provincial Payments	335.1	350.7	362.2
Development Oriented Informal Adult Education			
National	10.4	11.3	12.5
Transport Infrastructure Rehabilitation and Maintenance			
National	407.6	413.1	415.2
Provincial Payments	36.2	50.7	51.0
Income Earning Opportunities			
National	98.6	103.9	108.1
Provincial Payments	11.8	12.1	12.4
Law and Justice			
National	674.1	726.4	729.5
Subtotal	2079.6	2285.7	2351.5
OTHER EXPENDITURE			
Interest payments and Fees	480.5	493.0	501.3
Other National	2050.7	1855	1758.8
Other Provincial Transfers	166.6	156.1	150.4
Subtotal	2697.8	2504.1	2410.5
TOTAL EXPENDITURE AND NET LENDING	4777.4	4789.8	4762.0