



EUROPEAN UNION



**GOVERNMENT OF
PAPUA NEW GUINEA**

CO-OPERATION

BETWEEN

EUROPEAN UNION

AND

PAPUA NEW GUINEA

JOINT ANNUAL REPORT

2004

***On the implementation of the ACP-EU Conventions
and other co-operation activities***

Main report

List of Abbreviations

ACP	Africa, Caribbean and Pacific
ADB	Asian Development Bank
AusAid	Australian Aid
BPNG	Bank of Papua New Guinea
CEP	Country Environmental Plan
CSP	Country Strategy Paper
DAG	Development Assistance Grant
DNAO	Deputy National Authorising Officer
DNPRD	Department of National Planning and Rural Development
DoM	Department of Mining
DOW	Department of Works
EC	European Commission
EDF	European Development Fund
EFFC	Eco-Forestry Field Component
EFP	Eco-Forestry Programme
EIB	European Investment Bank
ENB	East New Britain
EPA	Economic Partnership Agreement
ECP	Enhanced Cooperation Package
EU	European Union
EU-PMU	European Union Programme Management Unit
FA	Financing Agreement
FLEX	Financing for Short Term Fluctuation in Export Earnings
FMO	Framework of Mutual Obligation
FOB	Free On Board
FORCERT	Forestry Certification
FPSC	Forest Policy Support Component
GNI	Gross National Income
GDP	Gross Domestic Product
GoPNG	Government of Papua New Guinea
GRA	Gazelle Restoration Authority
GRP	Gazelle Restoration Project
HoD	Head of Delegation
HDR	Human Development Report (UNDP)
HRDP-II	Human Resource Development Programme-II
IMF	International Monetary Fund
INA	Institute of National Affairs
IREP	Islands Region Environmental Program
JAR	Joint Annual Report
LLGs	Local Level Governments
MDGs	Millennium Development Goals
MSG	Melanesian Spearhead Group
MTDS	Medium Term Development Strategy
MTRP	Medium Term Restoration Programme
NAO	National Authorising Officer
NAO-SP	National Authorising Officer-Support Project
NARI	National Agriculture Research Institute
NCD	National Capital District
NDOE	National Department of Education
NFA	National Fisheries Authority
NGOs	Non Government Organisations
NIP	National Indicative Programme
NPRS	National Poverty Reduction Strategy
NRI	National Research Institute (GoPNG)

NSAs	Non-State Actors
NTFP	Non-Timber Forest Products
NZODA	New Zealand Overseas Development Agency
PACER	Pacific Agreement on Closer Economic Relations
PEM	Public Expenditure Management
PERR	Public Expenditure Review and Rationalisation
PGK	Papua New Guinea Kina
PICs	Pacific Island Countries
PICTA	Pacific Island Countries Trade Agreement
PMAU	Project Management Assistance Unit
PNG	Papua New Guinea
RCFD	Rural Coastal Fisheries Development Project
REPA	Regional Economic Partnership Agreement
SAF	Structural Adjustment Facility
SASP	Structural Adjustment Support Programme
SHP	Sexual Health Project
SPF	South Pacific Forum
STABEX	Stabilisation of Export Earnings of Agricultural Commodities
YSMIN	System for Mining Assistance
TA	Technical Assistance
TCF	Technical Cooperation Facility
TMC	Timber Marketing Component
UNDP	United Nations Development Programme
UNITECH	Technical University (PNG)
UPE	Universal Primary Education
UPNG	University of PNG
US	United States
USD	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organisation

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1. EXECUTIVE SUMMARY

The Somare-led government has been in place since the election in 2002, but the political situation continues to be characterised by high level of instability with frequent ministerial reshuffles and threats of motion of no-confidence. For the next election, PNG will use limited preferential voting which would have the potential for enhancing accountability, cooperation among political candidates and lead to more stable governments. In 2004, by-elections for 5 parliamentary seats were conducted based on LPV.

Many initiatives are being taken to improve governance but the results or successful implementation seems to fall behind, e.g. as evidenced by the fact that both WB and ADB had halted programmes due to governance problems. The Government carries on with its fiscal and public sector reform programmes. A significant initiative the Public Expenditure Review and Rationalization (PERR) reforms sought to ensure ongoing macroeconomic stability and to improve the quality of government expenditure was further advanced in 2004 with the establishment by the Cabinet of a PERR Implementation Committee.

The Australian Enhanced Cooperation Programme (ECP) constitute a major change in the governance in the PNG with in-line positions being filled by Australian experts in key national departments (Treasury, Finance, National Planning) and within the Judicial system. It is still too early to judge the effects of the ECP. However it is a unique experience/experiment and will require a depth of engagement and commitment by all parties to ensure that it succeeds given the significance of the financial investment.

Over the last decade, per capita income has decreased by more than 20%. However, starting in 2003 and continuing in 2004, the economic situation has started to improve. GDP, in real terms, grew by 2.6 and 2.8% respectively. Inflation reached a record low of 3.7% in 2004 and the public budget showed a surplus in 2004 equal to 1% of GDP. The improved economic situation is to a large extent the result of higher prices for key export commodities, in particular oil, copper and gold, however combined with prudent monetary policy and improved fiscal performance.

Social indicators are relatively poor for PNG and the situation has worsened over the years. A UNDP supported project to assess the MDG goals and indicators in PNG has been undertaken. The government has adopted targets on the key MDG but at the same time clearly indicating that the MDG goals cannot be reached for PNG. HIV/AIDS infections in PNG have reached critical levels and the continued spreading of the disease may pose the single largest challenge to development efforts in PNG.

The implementation of the 9th EDF programme is behind schedule. At the end of year 2004, only 8% of the A-envelope had been committed. Under the 9th EDF the focal sectors are Education, Training and Human Resources Development Programme (€ 39 million) and the Rural Water Supply and sanitation Programme (€25 million). The feasibility studies of both programmes were completed in 2004 and their financing proposals were sent to the Commission in Brussels before the end of the year, but they need further refinement.

The 2004 Mid-Term Review (MTR) resulted in a reduction of the A-envelope with 10 million € and a reduction of the B-envelope by 9 million €, reflecting serious concerns in relation to the absorption capacity. Subsequently, 22.4 million € was mobilised under the FLEX facility from B envelope raising concern over absorption capacity again. About 6 million € have/are expected to be de-committed from old projects resulting in a total A envelope of nearly 100 million € and a B-envelope of 3.6 million € reserved for disaster relief. After these revisions, there remain nearly 26 million € to be programmed in the non-focal sector Institutional capacity building and Governance, including support to non-state actors.

The key immediate challenge will be to ensure the timely commitment of the remaining 9th EDF. The capacity has been strengthened in the NAO system and in the delegation. However, a number of critical issues remains to be resolved if the full 9th EDF are to be committed in time. Important aspects include active role played by government in formulation of priorities and that an operational mode to coordinate with other donors, in particular the Australian assistance, will be found.

2. UPDATE ON THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

2.1. Update of the political situation

Since independence in 1975, PNG has maintained a parliamentary democracy based on the Australian model with a single legislative chamber of 109 members, elected by universal adult suffrage for a period of 5 years.

2.1.1. Key political developments

The Somare led Government elected in 2002 continued in office in 2004. This is despite numerous threats and unsuccessful attempt by the Opposition Parties to unseat it following the expiry of the 18 months grace period provided for under the National Constitution. This has enabled the Government to continue the initiatives it had embarked upon, including consolidating on past reform measures. Public interest in the issue of political stability saw civil society, churches and interest groups voicing their concerns at the continuing deprivation of services to the people as a consequence of threats and frequent political changes.

The uncertainties created by the constant threats to change the Government 18 months after election (i.e. the period where the Government cannot be voted out of office) prompted the Government to seek a review of the Organic Law on Integrity of Political Parties and Candidates and amendment to the National Constitution on the Motion of No Confidence with the aim of extending the grace period from 18 months to 36 months. The Integrity of Political Parties and Candidates legislation seeks to strengthen and bring about political stability in the system of Government and to strengthen political party membership and obligations, inter alia through restrictions on 'Vote of No Confidence'.

Both issues remain unresolved at the end of 2004. Confusion on the interpretation and issues of the rights/powers of individuals and political parties reflect the fact that legislation alone is not sufficient to create the political stability envisaged under the various amendments.

Limited Preferential Voting

One of the most important constitutional developments in the electoral system in PNG is the move to Limited Preferential Voting (LPV), a system that requires the voter to make 3 choices of candidates listed on a ballot paper using the numbers 1, 2, and 3, the first number representing the voter's most preferred candidate. A candidate elected under the LPV will have 50% of the formal votes and will be considered as having an Absolute Majority as no other candidate can obtain a greater number of votes once a candidate has secured over 50% of the formal votes.

In 2004, The LPV system was used in the By-elections for the Yangoru-Sausia, Anglimp-South Waghi Open, Chimbu Regional, Moresby North East and Wabag Seats. Assessment of the outcomes of the various by-elections by independent evaluation teams (comprising representatives of a cross section of the community) nominated by the Electoral Commission, showed general support for the simplicity, efficiency and transparency of the system. The absence of intimidation and violence and the seeming goodwill among contesting candidates was notably observed by the voters interviewed. The LPV was also perceived as providing a more representative member to the Parliament unlike the previous 'First Past the Post' system where the majority of the elected members won on a very low percentage of the votes cast.

As the LPV system is new the evaluators noted the need for substantial awareness using all avenues in the communities to educate all voters in the lead up to the 2007 General Elections. Awareness would focus on how to vote, how votes are counted and in particular educate the voters about the unique opportunity presented by the new voting system to elect good leaders. The 2007 elections will benefit significantly from the experiences of the by-elections. Substantial resources including early planning and preparations will be critical.

Bougainville Peace Process

Significant progress has been achieved in the peace process resulting in the adoption by the Bougainville Constituent Assembly on 12 November 2004 of the Constitution and its coming into effect in December 2004. The BC is consistent with the PNG Constitution. Preparations for elections are underway. The legislature to be known as the House of Representatives will consist of 33 members. In addition there will

be 3 women and 3 combatants, one of each elected for each of Bougainville's 3 regions (North, Central & South).

On Weapons Disposal, at the end of 2004 94% of the more than 2000 guns had been destroyed. The process of destroying guns is completed in 7 of the 10 districts of Buka and Bougainville islands.

To facilitate the establishment of the new government, manage the gains from the peace process in the restoration of law and order and ensure security during the forthcoming elections, the delegation of significant national police powers to the Bougainville authorities, deployment of 50 Bougainville police and the placement of 19 Australian police under ECP with Australia are critical.

Substantial financial and skilled human resources will be needed to successfully establish the public service to implement the new government's policies and programmes. Former 'rebel' youth, population emerging from conflict syndrome and the large number of employed people under the interim arrangements who are no longer needed pose enormous challenges that the new Government will face.

Decentralisation

The 1995 Organic Law on P&LLGs provided for 20 Provinces, 89 Districts, 284 Local Level Governments and over 5700 Wards. The law intended that significant responsibilities and resources, both financial and human would flow to local level governments to improve the delivery of goods and services to the 85% of population living in rural areas.

Assessment of the Organic Law implementation and achievements noted the lack of any improvement to social services; in fact services had seriously deteriorated since the introduction of the Organic Law. The limitations of the original Organic Law were that it de-linked functions from funding and thus priority activities in health, education, infrastructure maintenance were neglected. The different skills capacities, inequitable distribution of resources and the formulae for the allocation of grants by the national government was unrealistic. These contributed to the lack of improvements in the provinces.

Amendments to the Organic Law were critical in achieving the objectives of decentralisation. Based on its 2003 data analysis, the 2004 Budget for the first time had data showing a comprehensive picture of the fiscal position of each Province, in particular "the gross disparity in the way non grant revenues are divided varying from K280/head in NCD to K16/head in Chimbu – this disparity affects the capacity of the respective provinces to deliver their responsibilities.

The establishment of District Treasuries. Section 112 of the Organic Law on Provincial and Local Level Governments makes it mandatory for the establishment of District Treasuries to enable Local Level Governments and Districts to actively participate in the management of their resources, including maintaining and submitting their annual accounts. Just as important is that it would provide the opportunity for people in remote areas to access affordable financial services.

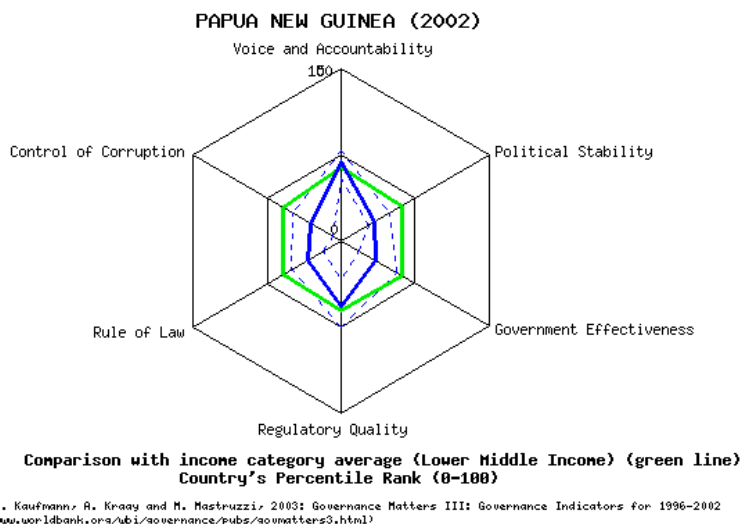
Most District Treasuries are still located in the main provincial centres rather than the Districts, leading to high expenditure on travel and a lack of service to rural people. It also impacts on financial accountability at the local level governments. Shortage of funds was a major contributing factor to the lack of progress in the establishment of DT in the last 10 years. NEC Decision 186/2003 was a major turning point and marked the significant development in the establishment of DTO. During 2004, District Treasuries have been established in various districts in the Central, Morobe and Eastern Highlands, although these remain incomplete.

The DTs provide an avenue for district level administration to receive funds and transact funds and therefore provide an essential community service as they enable local service providers (communities) to tender/participate in the provision of goods and services and also allow payees to receive payment for their services. The establishment of cash offices in DT will enable individuals and groups in the community to transact funds in and out of their communities, enhancing the objective of decentralisation of services given the closure of many rural bank offices/branches. The Bank of South Pacific and Post PNG have agreed to use these DT to provide banking and postal services to the people.

2.1.2. Governance

The quality of governance is central for the effectiveness of development efforts and assistance. Governance is inherently difficult to quantify. The World Bank has developed a set of governance indicators based on a large number of assessments made by various international organisations. This makes it possible to gauge the relative performance of PNG on a number of aspects of governance

Figure 1: Governance indicators PNG vs. average for lower middle income countries



Compared with countries in the same income group, PNG scores significantly worse on political stability, government effectiveness, rule of law and control of corruption whereas the score on voice & accountability and regulatory quality are on par with these countries.

Law and order

The serious break down in law and order especially in the main urban centres is a serious constraint on economic development. In 2004 the police force and other law enforcement agencies (Justice, Attorney General, the Courts and Correctional services) received the largest share of expenditure. This has not impacted positively as is reflected in high levels of crime, ineffective community policing, increasing incidences of police abuse and human rights violation. Women and children are especially vulnerable.

A recent report on the Police Force commissioned by the Government in response to increasing unrest, violence and increasing use of firearms noted “that the effectiveness of the police is in a state of serious decline, and the pace of deterioration is accelerating”. Furthermore, the “unwavering parliamentary support and long term commitment to the police are essential”. The report attributed police ineffectiveness to mismatch between police resources and population growth or increased crime, lack of discipline and low morale, lack of accountability, transparency and corporate governance in the force. Further deterioration in the law & order is expected to impinge on even delivery of health and education services. Police lawlessness had destroyed community confidence and trust.

An independent and free judiciary is the hallmark of PNG’s judicial system and this perception has resulted in the courts being inundated in recent years with both small and large cases. The courts are perceived as impartial, effective and of high integrity to the extent that increasingly they are approached as “the first rather than last resort’ by the public. The judiciary is under resourced and its recent decisions have called for tougher penalties through the amendments of appropriate legislations in order to deter criminal behaviour.

Human Rights abuses have also triggered renewed efforts to protect the rights of the vulnerable sector of the community. Urbanisation and the development of squatter settlements, issues of repatriation and resettlement raise fundamental issues of rights. PNG is a signatory to the Human Rights Convention however a Human Rights Unit located in the Ombudsman is the extent of its capacity. Support is being provided by the UNDP to the Ombudsman Commission to enhance its capacity to undertake advocacy and monitoring and to assess human rights needs in PNG and increase awareness of human rights.

Programmes from World Bank and ADB still halted because of governance issues

The Forestry and Conservation Project which was to be funded by a World Bank loan negotiated in 2001 remains suspended due to PNG's failure to meet two outstanding requirements. These include that the Borrower (the State) introduce legislative amendments to Section 137 of the Forestry Act to ensure that any extension and revised permit for certain blocks comply with the Forestry Act. In addition the Borrower is required to review and revise the Project Agreement and Timber Permit relating to certain blocks to ensure the harvestable timber resources is logged sustainably, in compliance with the Forestry Act. The World Bank has suspended other lending to PNG until the Forestry and Conservation Project issues are resolved.

In relation to the disbursement of the Second Tranche of the Public Sector Reform Loan, the ADB has expressed concern at the State non compliance with agreed procedures and processes for the appointment of departmental heads, specifically the political interference in the appointment of the National Fisheries Authority's Managing Director. The need for Government to articulate an Expenditure Plan for the use of the second tranche of the loan funds also remains outstanding.

The unresolved issues with both these financial institutions have raised concerns about PNG's commitment to good governance and accountability.

Corruption

Corruption in PNG is perceived as systemic and endemic and is viewed as a serious problem because of weaknesses in accountability and in enforcement. Corruption is seen in the resource industries such as forestry and fisheries where outside interests have conspired with corrupt leaders to exploit PNG's national resources. The increasing numbers of foreign nationals who have been entered the country without proper documentation has raised serious concerns about the integrity of various State institutions. White collar crimes associated with corrupt practices are an increasing concern.

In PNG Legislations introduced to address corruption include the Organic Law on Integrity of Political Parties and Candidates which was developed to also prevent candidates from being improperly or unduly influenced by outside or hidden influences. Non adherence to the Leadership Code which articulates the code of conduct for public office bearers has seen leaders being successfully referred to the Leadership Tribunals and prosecuted by the Courts in 2004.

The strengthening of the anti-corruption watchdog agencies such as the Ombudsman Commission, Auditor Generals and Public Accounts Committee, including the increasing advocacy roles played by civil society organisation through Transparency International (PNG), Trade Unions, the Media and Churches is critical.

In 2004 the *Parliamentary Public Accounts Committee* was strengthened to review budgets and expenditures of public bodies. This greatly improved Government agencies compliance and accountability. In addition a National Anti-corruption Alliance, including the Ombudsman Commission and the Auditor General operations have brought about referrals and prosecutions.

The Table below is a survey by Transparency International of 146 countries and ranked them according to degree of corruption. The CPI score ranges from between a clean '10' and a highly corrupt '0'. A score of less than 3 indicates 'rampant corruption'.

Table 1: Transparency International Corruption Perception Index (CPI 2004)

<u>Country Rank</u>	<u>Country</u>	<u>CPI 2004 Score</u>
1	Finland	9.7
2	New Zealand	9.6
3	Denmark/Iceland	9.5
9	Australia	8.8
102*	PNG	2.6
145	Bangladesh/Haiti	1.5

* Includes Eritrea, Philippines, Uganda, Vietnam, Zambia
(Source: page 29 ASPI Strategy)

Enhanced Cooperation Programme (ECP)

The ECP provides a harmonized, unified and strategic opportunity to address core challenges in PNG governance. The ECP has two mutually supporting sets of objectives encompassing law and order, economic and justice management combined with border and transport security. The ECP will see the placement of up to 36 economic and public administration specialists in key central agencies, 18 legal specialists with the Judiciary Agencies, 10 specialist in border protection and transport and 230 police officers deployed with the PNG police force.

The Public Sector Reform exercise in 2004 focussed on the improved management of public employment and control of personal expenditures through the Concept Payroll project which identified and cleansed 'ghost' names, overpayments of allowances, non essential employees from the payroll. Building a performance oriented Public Service through constitutional amendments guaranteeing merit based appointments for Departmental Heads of National and Provincial Departments. Reorienting Personnel Management Systems and Processes to improve delivery of services and Strengthening Provincial Reforms through Fiscal Decentralisation will be further consolidated through support under the ECP.

Promoting good governance has seen the Government focus resources in 2004 on Strengthening Oversight Agencies such as the Ombudsman Commission, the Auditor Generals Office and the Public Accounts Committee. Government Procurement Systems have also been strengthened and a single Central Supply and Tenders Board established with Board members appointed through transparent procedures.

Improving Economic Management was advanced through strengthening of fiscal discipline, improving resource allocation, debt management, expenditure control, monitoring revenue and expenditure performances and sound financial systems.

2.2. Update on the economic situation

2.2.1. Macro economic developments

The economic developments in 2004 continued the positive signs from 2003 with economic growth of about 2.6%, the budget showed a surplus for the first time in many years, inflation reached record low levels, and the international reserves record high levels. The table below presents an overview of key economic indicators for recent years.

Table 2: Key economic indicators 2000-2004 and projections for 2005

Indicator	2000	2001	2002	2003	2004	2005
<u>National income data</u>						
GNI per capita in USD (Atlas method) ¹	720	630	540	510	540	580
GDP growth real	-2.5%	-0.1%	-1.0%	2.8%	2.6%	2.9%
GDP growth rate – non-mining sector	-2.1%	1.9%	1.5%	1.7%	2.8%	
<u>Government fiscal operations</u>						
Revenue and grants as % of GDP		30.6	27.5	28.2	31.2	32.0
Government expenditure as % of GDP		34.1	31.3	29.1	30.1	33.0
Budget deficit as percentage of GDP		-3.5	-3.8	-1.0	1.1	-1.0
Public debt as percentage of GDP	58	68	70	60	54	
<u>Monetary indicators</u>						
Inflation	10.0%	10.3%	14.8%	8.5%	3.7%	
Interest rates –treasury bills 182 days	14.9%	10.2%	13.5%	16.7%	5.4%	
Exchange rate USD/Kina	0.36	0.30	.26	0.28	0.31	
<u>International trade</u>						
Goods and services exports as % of GDP			63%	67%	62%	
Goods and services imports as % of GDP			58%	57%	58%	
Current account balance			-4.3%	3.8%	-0.6%	

Source: BPNG quarterly report, Annual budget government of PNG, World Bank

National income and economic growth

PNG is a strongly dualistic economy with 85% of the population living in rural areas and the majority of these depending on subsistence agriculture. At the same time, the economy is strongly dominated by a limited number of primary commodities and consequently vulnerable to changes in production or market conditions for these commodities. In 2003, gold, copper and crude oil represented 75% of the total value of the exports of goods, and the remaining part was mainly made up of logs and a limited number of agricultural products (palm oil, coffee and cocoa).

In spite of a rich resource base, the PNG economy has performed poorly due to a mixture of bad policies, lack of stability and external effects. From 1996 to 2002 the economy was in recession and the GNI per capita fell by about 20.

Preliminary figures for GDP show a growth of 2.6% in 2004. In 2003, the growth was 2.8% but the three preceding years saw contractions in the economy. However, with population growth of about 2.3% p.a., the recent growth in GDP gives little net increase per capita. Positive developments are linked to favourable prices for the main export products, in particular oil, copper and gold combined with prudent monetary policy and improved budgetary performance.

Government fiscal operations

For 2004, the public budget is estimated to show a surplus of 1.1% of GDP compared with an original budgeted deficit of 1%. The improved budgetary position is mainly due to lower interest rates reducing the payment on government debt, and higher revenue from petroleum taxes, combined with fiscal discipline.

The budget for 2005, adopted in December, projects a budget deficit of 1.0% GDP or 137 million PGK. The expenditure side of the budget is divided into recurrent expenditure (projected at 2.9 billion PGK for 2005) and development expenditure (projected at 1.9 billion PGK). The recurrent expenditure in 2005 is set to increase slightly compared with 2004, whereas the development expenditure will increase by more than 500 million PGK, mainly due to the full implementation of the Australian Enhanced Cooperation Programme (ECP).

Table 3: Budgeted government budget surplus/deficit versus actual outcomes

%-age of GDP	2001	2002	2003	2004
Original budgeted deficit/surplus	-1.4%	-1.8%	-1.9%	-1.4%
Change in Revenues	-0.4%	-0.5%	1.2%	3.2%
Change in Expenditures	-1.7%	-1.5%	-0.3%	-0.7%
Net change	-2.1%	-2.0%	0.9%	2.5%
Actual budget deficit/surplus	-3.5%	-3.8%	-1.0%	1.1%

Source: Calculated based on data from the Annual Budget, Government of PNG 2001-04

As can be seen from the table above, the government's fiscal stance has greatly improved in 2003 and 2004 compared to the two preceding years. Where actual outcomes were about 2%-point lower compared with the budgeted deficit in 2001 and 2002, both 2003 and 2004 saw net improvements in the actual fiscal balance as compared with the budgeted deficit; the improvement being 2.5%-point of GDP in 2004.

If the figures are disaggregated, it can be seen that the improvement in 2003 and 2004 are linked to increased revenues, as both years saw minor increases in the expenditure side as compared with the budgeted expenditures. However, the development in expenditures as compared with the budget also clearly indicates that the government has exercised stronger expenditure control in 2003-04 as compared with 2001-02.

Public debt

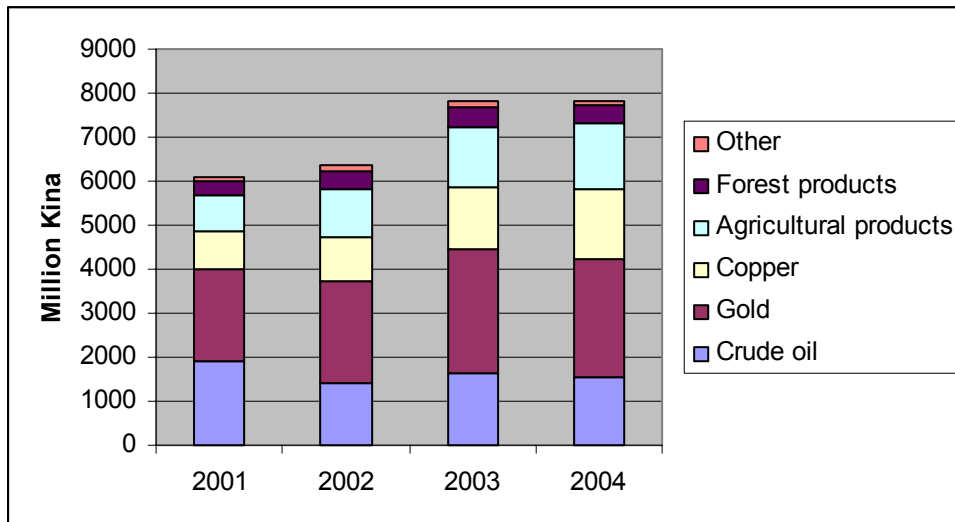
The level of public debt which was seen as a serious problem just a few years ago seems to have been brought partly under control. Since 2002, the public debt, measured as a percentage of GDP, has fallen from 70% to 54%. This positive development results from a combination of factors: positive economic growth, fiscal balance and the appreciation of the Kina. The strong decrease in interest rate will also reduce the impact of the domestic debt significantly.

International trade and regional cooperation

PNG economy is as mentioned highly dependent on a few primary commodities. The figure below shows the development in overall goods exports and its main components have developed over the period 2001-2004. As can be seen the export value increased in 2003 and 2004. This increase is mainly caused by higher value of exports of gold, copper and agricultural products (primarily cocoa and palm oil).

PNG is an active member of all the Pacific Regional Organisations, including APEC, Melanesian Spearhead Group and Pacific Islands Forum. It is a member of a number of trade agreements, notably Pacific Islands Country Trade Agreement (PICTA), Pacific Agreement on Closer Economic Relations (PACER) which also include Australia and New Zealand.

Figure 2: Value of PNG export of goods 2000-2004



The start of the second phase of the negotiation of an Economic Partnership Agreement between EU and the Pacific Countries was officially launched in Fiji in September 2004. While initially giving limited attention to the EPA process, PNG, which representing about 80% of the population of the region, has taken a more active role in this second phase of the negotiation. The Pacific Countries have proposed to structure the negotiation around a number of key sectors. In January 2005, PNG was appointed to be Ministerial Spokesperson for the Agriculture Sector (including biodiversity, forestry and mining) and alternate ministerial spokesperson for two other sectors.

In PNG, the responsibilities for trade negotiations, including EPA, lies with Department of Trade and Industry. Based on an EU-funded study, the National Executive Council approved (in September 2004) a policy submission from DTI aiming at revising/establishing the basic architecture for the national preparations for the EPA negotiations:

- ⇒ The Minister for Department of Trade and Industry is member of the core group of Pacific ACP ministers and has been appointed lead spokesperson for the sector Agriculture (including biodiversity, forestry and mining).
- ⇒ An Advisory Board for Trade Negotiations (ABTN) has been established to assist the Minister in these negotiations. The ABTN consists of high-level representatives from relevant ministries, and the private sector. The actual functioning and worth of this ABTN is still to be seen.
- ⇒ The Minister and the ABTN will be supported by a trade advisor and a trade negotiation unit (now planned to form a part of the Trade Division in DTI) The trade advisor is expected to be hired very soon and financed with EU support (see below under point 5) TRA). The trade negotiation unit will comprise staff seconded on half time from relevant sector ministries.
- ⇒ To develop sector specific analyses and preparation of negotiation positions, 8 sector working groups have been formed. The working groups have representatives from industry and NGOs plus staff from relevant government bodies. ToR has been developed for these working groups but until now the outputs has been of varying quality.

2.2.2. Reforms in public financial management

Aggregate fiscal control has been achieved but it is generally considered that this has come about through tight control of overall spending and rather than through the reduction of wasteful spending and redirecting of budget allocations to priority areas. A range of financial management reforms have, however, been put in place and are being put in place to improve the way in which public agencies use funds.

The **Public Expenditure Review and Rationalization (PERR)** reforms sought to consolidate the Government's fiscal adjustment program to ensure ongoing macroeconomic stability and second, to improve the quality of government expenditure including by reprioritizing available funds in accordance with the Government's development objectives. The PERR focused on 4 themes: a Roadmap to Fiscal Sustainability, Civil Service Size & Payroll, Restructuring the Integrity of Budget Institutions & Systems and Adjustment & Prioritization of expenditures.

In June 2004 the Government established a PERR Implementation Committee (PERRIC) comprising Deputy Secretaries of central agencies and chaired by the Deputy Secretary of the Treasury Department. PERRIC have focussed on measures to improve budget stability and the budget process, controlling the payroll spending and appointment process, improving prioritisation of spending, and enhancing budgetary control and oversight of statutory bodies.

The **Financial Management Improvement Programme (FMIP)** which is an integrated Programme of financial management is being implemented at all levels of the national, provincial and local level government. This programme has been ongoing and training will be intensified to ensure sustainability. The FMIP is under the responsibility of the Department of Finance and is supported by ADB, AusAID and UNDP. Within the context of this programme, the Government commenced preparations in 2004 to acquire and implement an **Integrated Financial Management System (IFMS)**. This integrated system would encompass project proposals, budget preparations, budget changes, appropriations, general ledger, receipts, commitments, ordering, payments assets and liabilities and inventory.

In 2004 reforms aimed at reducing the **Civil Service Size and Payroll** has helped minimise waste, leakages and fraud in salary administration. At the end of October 2004 all national and provincial administration agencies were on the Concept Payroll System. A joint Treasury and Department of Personnel Management Committee had been established to screen recruit activities and control the administration of recruitment and placing of staff on the payroll.

2.3. Update on the social situation

With a rank of 133 out of 175 on UNDP's human development indicator, PNG is one of the countries in south east Asia-pacific with the lowest score. A comparison with neighbouring countries also show that on indicators such as life expectancy, infant mortality and literacy rates, PNG scores in general markedly lower, as indicated in the table below.

Table 4: Selected Social Indicators for selected countries – Year 2002 or latest data

Country	HDI Rank (out of 177)	GDP/capita (at PPP USD)	Life expectancy at birth	Infant mortality per 1000 births	Adult literacy rate (Pop. above 15 years)	Combined gross enrolment ratio
Papua New Guinea	133	2270	57.4	70	64.6%	41%
Fiji	81	5440	69.6	17	92.9%	73%
Solomon Islands	124	1590	69.0	20	76.6%	50%
Vanuatu	129	2890	68.6	34	34.0%	59%
Indonesia	111	3230	66.6	33	87.9%	65%
Philippines	83	4170	69.8	29	92.6%	81%

Source: Human Development Report 2004, UNDP

PNG's development record continues to lag behind other Pacific island countries despite its enormous natural resource wealth and external donor support. Increased investments into the education and health

sectors have resulted in some improvements to aggregate health and education indicators, however PNG still compares unfavourably to other island countries in regard to its higher population growth, lower average life expectancy, higher infant mortality and lower rates of adult literacy. The prevalence of HIV/AIDS cases has serious social and economic implications and consequently this epidemic is being addressed from a multisectoral perspective and through a collaborative effort of state and non state actors. Recently PNG was declared the 4th country in Asia Pacific region with a generalised epidemic. Efforts to curb the continued rise of the disease are guided by the 2004-2008 PNG National Strategic Plan (NSP) on HIV/AIDS. The Plan aimed to reduce the HIV/AIDS prevalence rate in the population to below 1%, or by at least 1% by 2008.

According to the NSP 2004-2008 since the first case of HIV was reported in PNG in 1987, the number of HIV/AIDS cases has risen to 7036 by 2003. From 1995-1997 known cases increased by 50% each year and since 1997 the annual increases in diagnosed cases was around 30% with an estimated 150 new cases since 2003. The largest number of cases is concentrated in Port Moresby and other towns, along major transport routes and around rural enterprises such as mines and plantations.

Prevalence level, it is estimated could reach 18% by the year 2010 with over 50,000 adult deaths and this could increase to 98,000 in 2020 resulting in a disturbing 34% reduction in the country's work force. It is also estimated that for every 5% increase in prevalence in PNG will require the national health spending to increase by 40 % (National Health Plan, 2001-2010)

Urbanisation is also a reality, the consequence of limited social and economic opportunities in rural situations. Significant pressure is added to the traditional safety nets. Urbanisation has seen the proliferation of squatter settlements in the urban centres. The lack of basic social amenities and employment opportunities has created social tensions and problems and contributed to the increasing lawlessness in urban communities.

2.3.1. MDG indicators in PNG

As a signatory to the UN Millennium Declaration, PNG had committed itself to the 8 Millennium Development Goals to: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality 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 by 2015.

Reflecting the fact that PNG finds it cannot meet the official MDG by 2015, a set of less ambitious targets have been defined in the MTDS. However monitoring and data collection is very weak. A report on MDG goals were prepared by the government under a UNDP project in 2004.

In PNG's MDG Report, the report noted that "since 1990 performance towards achieving the MDGs in PNG has been mixed ...with overall progress disappointing ...disparities in most MDG related indices at the provincial and sub-provincial are very large by any standard ...in some cases the gaps between provinces have further widened" (page 50 Millennium Development Goals – Progress Report for PNG 2004)

Table 5: Millennium Development Goal Indicators

Type	Indicator	1990	1995	2000	2001	2002	2003	2004	2015
Impact	1. Proportion of population below the poverty line		30%						20%
	2. Prevalence of underweight children (<5 years)			24.9	27.0	26.9	27.0		
	3. Under-five mortality rate	133		88					
Outcome	4. Gross enrolment ratio in primary education	66.3	68.1	77.4					85
	5. Primary Completion Rate	58.1	61.6	56.8					70
	6. Ratio of girls to boys in:								
	- primary education			81			81	81	100
	- secondary education			70			70	70	(100)
	- tertiary education			54			56	64	(100)
	7. %-age of births attended by skilled health personnel		42	41	38	38	37		
	8. %-age of 1 year old children immunised against measles		42	53	48	53	53		
	9. HIV prevalence among 15-24 year old pregnant women			.25%	.5%	.9%			
	10. %-age of popul. with access to improved water source		40		-	-			

Notes to the indicators (source MDG Technical working group unless otherwise stated)

1. Poverty. A proper measure of income distribution was made most recently in 1996 household survey. The lower poverty line was determined at 399 PGK per capita.

Target in the MTDS: Decrease the proportion of people below the above poverty line by 10%-point using the 1996 average national figure of 30% as reference.

2.. Reporting from National Health Information System on proportion of children under age 5 who have attended clinics and have weighed less than 80% of that expected for their age.

3. Data on mortality derived from the censuses

4. In PNG, targets have been formulated as gross enrolment ration and not net enrolment (the difference being that gross enrolment counts all students in the grade as percentage of the population in the that age group where net enrolment counts only students in the proper age group). In PNG there may be quite a difference

5. Cohort retention rates.

6. Gender. Data for ratio of girls to boys calculated from 2004 Annual Report, Department of Education.

National MDG target: Eliminate gender disparity at the primary and lower secondary level by 2015 and at the upper secondary level and above by 2030.

7. Proportion of deliveries in health facilities, The NHIS also records the proportion of pregnant women attending and antenatal clinic. The data from 1999 to 2003 indicate a declining trend with the share falling from about 60% to 55% (National Health Information System, reported in MDG TWG 2004).

8. Source: Department of Health, in MDG TWG.

9. No reliable data on prevalence of HIV/AIDS. The target is not quantified but states: Have controlled by 2015, and stabilised the spread of HIV/AIDS by 2020.

10. Data on access to safe water comes from the 1996 survey.

2.3.2. Gender Issues

The societies of Papua New Guinea are strongly male-dominated. Women are generally subservient to men, hence few women exercise any real sort of power or control over their lives. Men are hunters and warriors; women are laborers, gardeners, and mothers who bring food to the men's house.

Whereas women's roles are clearly defined, men suffer from the loss of their traditional roles in defending their clan and land. With urban migration, many young men find themselves unemployed and alienated from the society at large. Their capacity to produce income, the single most important prerequisite to securing a lasting relationship, remains the most difficult objective to achieve. These factors combine to make a very negative climate for gender.

There are many examples of the low status of women in Papua New Guinea, not the least being the extent of violence used against them by males. These social dynamics also contribute to the high risk for STI, including HIV infection, as well as adolescent pregnancy. While babies born out of wedlock are generally absorbed into the extended family without rancor, many girls drop out of school and otherwise foreclose

their life options in terms of education and employment. Despite increasing educational opportunities, women continue to take a back seat to men in many aspects of development.

Although government officials and community members alike express private concern over adolescent sexual behavior and teen violence in general, a larger programmatic response has yet to be forthcoming.

2.3.3. Environmental issues

No Country Environmental Profile has been prepared for Papua New Guinea. A comprehensive presentation of environmental trends, legislation and institutions can be found in the World Bank publication: PNG – Environmental Monitor, 2002. The key points from this publication are summarised in appendix 14.

It is planned to prepare a Country Environmental Profile for PNG as preparation for the programming of the 10th EDF. Consultants to prepare the CEP will be hired in the second half of 2005.

3. DEVELOPMENT AGENDA OF PNG

The Somare Government's Programme for Recovery and Development as announced in August 2002 and defines three broad-based interrelated development objectives: i) good governance, ii) export-driven economic growth, and iii) rural development, poverty reduction and empowerment through human resource development. The Medium-Term Development Strategy and the National Poverty Reduction Strategy are the key policy documents to support the achievement of these broad development goals.

Medium Term Development Strategy (MTDS) 2005-2010

The Medium Term Development Strategy, which covers the period 2005 to 2010, is PNG's overarching plan for economic and social development. The MTDS, which was formally endorsed by the NEC in November 2004, provides the strategic direction for the design of the Government's wider policy interventions. Sectoral plans and Provincial Development Plans are required to be developed within this framework.

The MTDS defines seven priority sectors which 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 as well as Law and Justice. The overall fiscal framework is laid down in the Medium Term Fiscal Strategy that defines the public resources available for PNG over the coming years. In the MTDS this fiscal envelope has formed the basis for the elaboration of medium term resource frameworks for the MTDS priority areas for the period 2005-07.

The MTDS also defines national targets for the Millennium Development Goals. 15 targets have been spelled out and 67 corresponding indicators selected. No systematic arrangement for reporting on these indicators appears to have been set up yet.

The MTDS appears to be a solid and well-developed document for supporting the achievement of the key overall development goals for the country. The actual outcomes depend of course on the implementation. As the MTDS 2005-10 also notes, the previous development strategy (covering the period 1007-2002) was a statement of good intentions which, however, did not materialise. Some of the reasons given for this include weak ownership of the strategy, poor governance, fiscal mismanagement and macro-economic pressures that diverted resources away from key priorities.

The National Poverty Reduction Strategy (NPRS) 2003-2020

The NPRS was initially developed with the support of the ADB and subsequently by other donors including the World Bank, AusAid and UNDP and has evolved through substantive stakeholder consultation into a PNG defined 'poverty' document. The NRPS has been developed in conjunction with the MTDS and the core strategies of the NPRS are consistent with the priorities identified in the MTDS.

The final draft of the Government's National Poverty Reduction Strategy (NPRS) is dated May 2003 but it has not yet been approved. The rationale of the NPRS is the reduction of poverty in PNG. However, to achieve this goal it was seen as necessary to acknowledge and define poverty in a PNG context,

recognising specific characteristics of the country. This process was supported through a participative process involving participatory poverty assessments.

The NPRS is called a long-term agenda for growth with redistribution. The directions provided by the strategy are of fairly overall nature without specific goals or costing of measures. The MTDS is seen as the implementing vehicle of the NRPS.

4. OVERVIEW OF PAST AND ON-GOING CO-OPERATION

At the end of 2004, global commitments under the 9th EDF amounted to 6.2 million Euro or 8% of the original A-envelope but no disbursement had been made yet. Most of the active projects are from the 8th EDF where 83 % of the programmable allocation had been individually committed and 55% disbursed at the end of the 2004. The table below presents an overview of the activity level in 2004.

	Global Commitments		Individual Commitments		Disbursements	
	During 2004	Total end 2004	During 2004	Total end 2004	During 2004	Total end 2004
8 th EDF: Total allocation 50 Million Euro	0	48.9 M€	12.3 M€	41.5 M€	11.8 M€	27.6 M€
% of programmable funds	0%	98%	25%	83%	24%	55%
9 th EDF Original allocation 81 million Euro	6.2 M€	6.2 M€	0.1 M€	0.1 M€	0	0
% of programmable funds (original envelope)	8%	8%	0.1%	0.1%	0%	0%

Seen over the last 10 years, the payments during the 2004 were markedly higher and the level of individual commitments was about average. An illustration of the implementation of the 6 to 9th EDF is found in the appendix. The table below presents an overview of the main projects under implementation in 2004 in PNG.

Table 6: Overview of main projects under implementation in PNG in 2004

Title	Year of FA	Global Commit.	Individ. Commit.	Disbursements	Comments/status
HRDP II 8.PNG-03	1999	24.0	18.5	16.5	The programme will now end in December 2006
NAOSP II. 8.PNG-04	1999	1.9	1.9	1.9	The project came to an end at the end of 2004
Eco forestry Programme 8.PNG-05	2000	7.5	7.3	3.5	Mid term review in 2004 reported mediocre performance. FA to be extended to give 5 years of execution.
Sexual health project 8.PNG-14	2000	3.5	2.4	1.3	Project will be evaluated in 2005
Rural coastal fisheries Dev. Project 8.PNG-17	2001	6.0	4.1	2.7	Mid term review in 2004 reported satisfactory performance. FA to be extended to allow 5 year implementation.
Improvement of Rural Primary Education facilities 8.PNG-19	2002	5.0	0.7	0.6	Project commenced in 2004 and achieved targets set for 2004.
Mining Sector Support Programme (SYSMIN) 8.PNG-18	2002	50.0	2.5	0.6	Project commenced in last quarter of 2003. All components were started up in 2004. An extension of the FA is required.
NAOSP III 9.PNG-02	2004	4.2	0	0	The project will provide support to the NAO in the period 2005-09

4.1. Focal Sectors

The European Community's programmes continue to focus on Education, Training and Human Resources Development as well as on Rural Development/Environment.

Under the 8th EDF, the focal sector programme and projects included Human Resources Development Programme, Rural Coastal Fisheries Development Programme, Eco-forestry programme, and the Improvement of Rural Primary Education Facilities Project. Significant progress was made in the implementation of these project/programmes during the period under review.

The 9th EDF focal sectors on Education, Training and Human Resources Development Programme (€ 39 million) and the Rural Water Supply and sanitation Programme (€25 million) are consistent with the government's development priorities of rural development and education, especially focusing on primary education and literacy for all. The feasibility studies of both programmes were completed in 2004 and their financing proposals were sent to the Commission in Brussels before the end of the year, but they require further refinement.

The Mid-Term Review led to reduction of €10 million of the A envelope and €9 million of the B-envelope. The changes in the allocation among individual projects are discussed in the section Programming Perspectives for the Following Years (cf. page 20).

4.1.1. Focal sector 1: Education and Human Resource Development

a) Results and policy commitments – focal sector 1

The MTDS 2005-10 identifies Basic Education and Development Oriented Adult Informal Education as key priority areas. Consistent with the MTDS, the National Education Plan 2005-2014 sets out the outcomes for education in PNG and the main strategies for achieving them. It builds on progress made under the National Education Plan 1995-2004.

In the EU-PNG Country Strategy Paper, the key policy measures to be taken by the government are to maintain the share of the national budget for education, facilitate regular dialogue with the donor group on education, encourage community and non-state actor participation and review career structures for primary school teachers and inspectors. The DoE has initiated regular coordination meeting with donors active in the sector.

The Education Sector investment programme is mainly financed by international development partners. GoPNG funds primarily recurrent expenditures of the sector. AusAid and the European Union are the major players in the primary education sector. The Asian Development Bank and AusAid are heavily involved in the Non-Formal Education sector with their Employment Oriented Skills Development Programme current implemented by the Department of Social Welfare & Development.

b) Progress in activities – focal sector 1

HRDP III (9th EDF – 39 million EUR)

This year the Financing Proposal for this programme was prepared and submitted to Brussels with the expectations that approval would be given prior to the start of the 2005-year. This did not eventuate as Brussels required additional refinement and input to make the proposal amenable to a sector-wide approach. A short-term TA has been hired to revise the financing proposal with the aim of having the project approved before the end of 2005.

This programme is consistent with the government's priorities in the MTDS and the draft Poverty Reduction Strategy (PRS). HRDP III will focus on GoPNG's priorities of basic education and TVET.

HRDP II - 8.PNG-03 (24 million EUR)

Under the Education and Human Resources Development focal area the second phase of the Human Resources Development Programme (HRDP II) focussed mainly on the construction and refurbishment of the facilities at three vocational centres (Malahang, Kuiaro, Hoskins Girls), four secondary schools (Popondetta, Hutjena, Mt. Hagen, Wabag) and two tertiary institutions (Kabaleo Teachers' College and

Unitech), training in-country and abroad, and provision of equipment and materials to support vocational training.

All but four institutions (Hutjena, Kabaleo, Wabag, Unitech, and Hoskins) were completed and facilities handed over to the government. Work on Hutjena and Kabaleo will be completed in the first quarter of 2005. At Wabag, force majeure was declared due to continual disruption and criminal activities by the community during its construction. Work on Hoskins Girls VC was annulled due to a volcanic eruption. The Tender for the construction and supervision of the works at Unitech was completed in the final quarter of the year but by year end the contract had not been awarded. These issues are expected to be resolved in 2005.

In 2004, ten scholars from the education sector were given scholarships to study abroad under this training sub-component of HRDP II. This amounts only to 70% of the number originally planned to receive such training. In the in-country training sub-component, activities included an agreement with University of Papua New Guinea to provide project planning and management training by distance education in 2005, and a continuation of the certain sponsorships.

The Project Management Unit (PIU) set up within the Department of Education (DoE) met most of the requirements of its mandate to facilitate and oversee the programme's implementation. The Unit was managed by a national who was appointed in late 2003 after numerous changes and performances issues with the TA recruited from Europe.

Improvement of Rural Primary Education Facilities (IRPEF), 8.PNG-19 (5 million EUR)

Under the 8th EDF's Rural and Environment Development focal area the Improvement of Rural Primary Education Facilities (IRPEF) Project began implementation in mid-April 2004. The project, aimed at improving both the level of educational provision and the extent of student participation (particularly girls) in remote primary schools is targeted to three remote districts (Ambunti/Drekikir, Rai Coast, and Jimi) in three different provinces East Sepik, Madang, Western Highlands of PNG. Activities satisfactorily completed included the provision of awareness of the project at all levels; surveys and appraisals of the district and educational sites and the concomitant development of the work programme and community support mechanisms established; the management, over-sighting and reporting systems in place; and a MOU with the co-implementer, VSO, signed.

The location of the PIU for this project in Madang has proved successful in 2004, as site surveys, training and monitoring visits and collaboration with provincial, district and school communities enabled better rapport and understanding with the beneficiaries.

A request has been made to Brussels for an additional funding of Euro 1.16 million in addition to the Euro 5 million allocated in 1998. This request is justified because of significant increases in cost, particularly for transportation, communications and solar powering equipment, since 1998, and the project will not be completed as planned without additional financing. Indications from Brussels for this request to be approved are quite positive.

c) Integration of cross-cutting themes – focal sector 1

HRDP II, builds on the achievements of the 7th EDF, aiming to increase the supply of educated and trained personnel in areas important for national economic development. Whilst efforts have been made to provide an acceptable gender balance in the training components, this has not been effectively achieved with few overseas full-time scholarships awarded to women.

HIV/Aids is now deemed a cross cutting issue, and the MTDS calls for Partnership and Strategic Alliances between key partners; including private sector, donors, churches and Community Based Organizations. Indeed NGO, CBOs and the private sector have been partners in the information dissemination of HIV/Aids prevention information. Efforts were also made especially in dialogue with the Department of Education to incorporate Sex education within the curriculum.

The HRDP III is still not finally formulated but the project proposal will make extensive use of non-governmental organisations in the delivery of basic education. Equal access to education for girls is one of the key objectives to be supported through the project.

4.1.2. Focal sector 2: Rural water supply and sanitation

a) Results and policy commitments – focal sector 2

The 2003-2007 MTDS stressed the importance of access to safe water for both the rural and urban population and recognised the important role played by aid donors and NGOs in delivery of water supplies. Access to safe drinking water was recognised as a key component of efforts to improved health-and related issues. The MTDS set a target to “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.”

The overall domestic water supply sector comprises three main sub-sectors:

- The capital city (NCD), the responsibility of a commercial company EDA Ranu, representing an estimated 250,000 or 5% of total population
- The provincial and district urban areas, the responsibility of PNG Water Board; representing some 500,000 people or 10% of total population
- The rural sector, representing some 4.5 million or 85% of total population. The responsibility was delegated to the Department of Health (DOH) but in terms of promotion only as, under the new Organic Law on decentralisation, Local Level Governments (LLGs) through the Local Government Technical Services (LGTS) are responsible for implementation of new RWSS schemes.

The National Water Supply and Sewerage Act of 1986 defined the responsibilities for water and sanitation in Papua New Guinea. The NCD, and urban areas are operated on an entirely different principal to rural water supplies, namely that the Water Boards or EDA Ranu manages and operates the schemes on a water payment basis with a meter at every water usage point. In contrast the rural sub-sector is characterised by community ownership, low cost systems requiring relatively small or no operating costs, voluntary community labour to manage and maintain the schemes and no charge is levied on the basis of water usage.

The Water Board’s main function is the provision of water supply and sanitation services to urban populations, other than NCD. However, it also has the responsibility “to promote water supply and sanitation in rural areas and urban fringe areas through community participation on self-help bases and where necessary with the help of loans, grants or aid”. The Water Board has delegated the responsibility for rural areas to the Department of Health. Thus the present situation is therefore that policy making is the responsibility of the NDOH, but the department has little influence over staffing and budgetary needs for implementation at the local level. In addition, District and Local-Level Governments are inadequately resourced to deliver the services required.

Key policy measures to be undertaken by the government as outlined in the CSP comprise

- to permit non-state actors to act as project carriers where local government services are inadequate
- to promote training of district and village level workers in water management, system operations and maintenance and preventive health/hygiene measures
- To monitor rural health indicators, with particular reference to child morbidity and mortality and the incidence of water borne diseases
- To prioritise villages for assistance with rural water supplies and sanitation on the basis of need as measured by population health status

During the Feasibility Study consultations Government gave an unconditional undertaking to pursue these policies so as to achieve the project objectives and ensure sustainability. Monitoring of health status will form the principal indicator in quantifying the results of the project.

b) Progress in activities – focal sector 2

Rural Water Supply and Sanitation Project (9th EDF – 25 million EUR)

The Financing Proposal for the EU funded 9th EDF Rural Water Supply and Sanitation Project was submitted in November 2004 and proposes to address the delivery of safe water to some 600 communities by involving Non State Actors and employing a Community Development approach, in order to engender

the required sense of ownership. It is expected that a decision on the FP will be taken by mid-2005 with the project expected to start in late 2005.

The aim of the programme is to install sustainable community managed RWSS schemes and train beneficiary communities in health/hygiene, people skills, technical skills and gender awareness. Selection of target communities will relate to need (especially in areas of seasonal water deficits, porous underlying rocks, high incidences of water borne diseases and high population density) and implementation capacity of NSA.

c) Integration of cross-cutting issues – focal sector 2

Non-state actors: NSAs will have a key role in implementation of the project . The Feasibility Study identified some 39 NSAs eager to participate in implementation. The NSAs are listed in the Financing Proposal currently being considered by Brussels.

Environment: Water supply systems in rural areas in PNG are small-scale and have limited impact on the environment. In most cases only a small portion of the total flow of a surface water source is diverted to the water supply system with the remainder following its natural course. Though pipes and other materials are not biologically degradable, they take up little space and are not a source of pollution as such.

Gender: Rural women will be primary beneficiaries of the project through reduction of drudgery and improved health and sanitation. The programme aims to maximize the involvement of local women in the communities by utilizing local women's groups such as those organized under the Provincial Councils of Women. With specific gender awareness sessions planned in the period prior to construction and using the local women groups to conduct health and hygiene training, it is intended that women will be more involved in the whole project process.

4.1.3. Focal sector 8th EDF: Rural development/environment

There are two projects funded under the 8th EDF, which were active in 2004: the Eco Forestry Programme (EFP) and the Rural Coastal Fisheries Development Programme (RCFDP).

Eco-Forestry Programme 8.ACP.PNG.005

The project consists of three main components: Ecoforestry field component (EFFC), Timber Marketing component, (TMC) and Forestry policy support component (FPSC). A mid term review of the project was conducted in 2004. Key findings include:

- The EFP offers rural communities a viable alternative to destructive logging that is strongly supported by Government and communities. There is evidence to indicate that a sustainable eco-forestry model may be economically viable.
- The National Eco-Forestry Policy has been completed and the marketing section has made progress although further practically oriented work is required. Progress on the field programme bringing eco-forestry to the mainland has been slow but the impact through training in the communities is real and expectations are high.
- While there have been problems with the field programme, progress has been made in the last 12 months with increases in sawn timber production and sales, commitments by the private sector, completion of the eco-forestry policy and creation of a functioning timber marketing information system. The eco-forestry policy has not been incorporated into the national forestry legislation.
- The private sector should play a key role in the exit strategy and international buyers are already buying certified sawn timber from EFP producer groups. The NGOs can play a part but have limited capability.

The present termination date for the FA is end of March 2005. However, due to original delays in the mobilising the field team, the project will only have run for four years as opposed to the planned five years by then. The review team recommended that the project period be extended by 12 months.

Rural Coastal Fisheries Development Programme

The project is implemented by the National Fisheries Authority (NFA). The mid term review of the programme, undertaken in October 2004, reported favourably on achievements to date. The key points noted are summarised:

- The project purpose is to “increase family incomes through greater participation in sustainable commercial production and improved marketing of marine products”. The project aims to increase landings of finfish and under-exploited marine resources, increase earnings by improved marketing and processing and improve management of marine resources.
- Delays in recruiting TA, and consequent delays in implementation, will make it impossible to deliver the expected outputs in the time remaining. The financing agreement was signed on 29th June 2001 while the project activities started in October 2002.
- The project is introducing fishing techniques and culture techniques which should move effort away from the vulnerable shallow reefs to the deeper offshore reefs and is also emphasising better management of resources so as to reduce overfishing.
- The projects objectives and activities fit in well with the stated aims and policies of the Government, the various Provincial Development Plans and the National Indicative Programme.
- A series of activities have been undertaken. These include provision of production equipment (boats), deployment of Fish Aggregating Devices (FADs), skills transfer in fishing, fish culture, processing and quality control and management and credit. The project is also building fish markets for local retailing in 4 locations in PNG, undertaken public awareness campaigns and attempted to facilitate export marketing of marine products through the private sector.

The mid term review recommended that the FA be extended to allow for the finalisation of the activities.

4.2. Projects and programmes outside focal sectors

This section of the report will provide a brief overview of the projects and programmes outside of focal areas.

NAOSP II and III

As from December 2004, the financing agreement of the NAOSP II came to the end and the departure of the Sofreco Technical Assistant Team. While, the capacity at the NAO's Office (EU-PMU) to undertake the management and administration of the EDF funded programmes and projects has been enhanced, there is need for further assistance focussing on sustainable improvement in capacity and on the further dissemination and training directed towards the various PMUs. A key change from the phase II to phase III will be that the TA will no longer have direct management responsibility for the EU-PMU, as a seconded government employee now function as head of the EU-PMU. The TA will act in an advisory function to this head of EU-PMU.

The new NAO Support Project (NAOSP III) will mostly deal with further capacity building within the NAO System, with a particular emphasis on line departments who will be implementing huge programmes. The strengthening exercise of these line departments should support the appointment of DNAOs in these line departments. The end result will be the efficiency in implementation of EDF projects and programmes. It is also intended that resources with the NAO's office maybe redistributed to the line departments in order to boost implementation capacity within these new departments.

EUSHP

The Medium Term Development Strategy 2005-2010 recognises the potential negative impact of HIV/Aids and has called upon all actors in development to take into account this aspect in their projects and programmes. It is envisaged that a sector-wide approach will assist in the effective prevention of the spread of this killer disease. This sector has been identified as one of the government's expenditure priority areas. Approximately PGK92.8 million has been envisaged under the Medium Term Resource Framework from 2005-2007.

The overall HIV/AIDS programme in PNG is driven by the support of AusAID in their NHASP, and UNICEF projects. They have identified high-risk target groups and EUSHP has so far conducted evaluations of previous interventions and assessments of 16 out of 20 provinces to be used as basis for

developing locally relevant peer education programs. EUSHP contributed to the strategic planning for the forthcoming MTP (2004 to 2008) with update information on the concepts, strengths and weaknesses of peer education so far employed in PNG, including the evaluation of previous interventions of NACS in view of impact and organisational needs for successful peer education interventions.

Capacity building for participatory research methods, project planning and project management was provided and will be continued in 2005, according to identified needs. Capacity building will also be required for local stakeholders to manage and monitor project components in support to agencies, which will be operating on a nationwide scale from this year onwards. The year 2005 will predominantly look at the evaluation of pilots, the regional dissemination of results and the scaling up of the operations.

Gazelle Restoration

This project was initiated as a result of the 1994 volcanic eruption which devastated and disrupted the livelihood of about 80,000 people on the Gazelle Peninsula. A total of 116 micro projects were identified for financial assistance but only 22 (18%) of these were implemented over the 3-year project period. Due to delays in implementing 82% of the micro-projects led to time running out. A decision was therefore taken to cancel the project and initiate a new financial proposal under the 9th EDF for its continued implementation. In July 2004 a financing proposal was prepared by NAO/EU-PMU and transmitted to Brussels and a financing decision is still being awaited.

Other donors involved in the restoration exercise are AusAid, World Bank, and Japan. This is implemented in line with the Gazelle Mid Term Restoration Plan.

TCF

Under Institutional Capacity Building and Governance a Financing Proposal was put together in 2003 for the Technical Cooperation Facility (TCF), the aim of which was to provide short-term training and technical assistance to prepare and implement existing and future EDF-funded programmes and projects. This proposal was approved in 2004 and is expected to fund the first six months of the NAOSP III in 2005 and the EPA preparation.

4.3. Utilisation of resources for non-state actors

The € 6 million earmarked for NSA capacity building under the Institutional Capacity Building & Governance programme was committed in 2004. This allocation forms a part of the non-focal sector programme Institutional Capacity Building and Governance. Delays in the commitment the all the funds under this programme were due to capacity problems and the nature and uniqueness of the programme. Indeed, this is the only programme where a financing proposal has not yet been drawn up.

However, it is envisaged that a feasibility study will be made in 2005 and a financing proposal sent to Brussels for a financing decision. It is foreseen that the programme will be designed would include some kind of fund to which potential beneficiaries may submit project proposals for funding. This would also include the establishment of an evaluation committee which would appraise project according to defined criteria. However, other thoughts and proposals may arise during the feasibility study stage. The NSAs will be the main beneficiaries of the project and wider consultation with them would be encouraged during the feasibility study.

4.4. Utilisation of the B-envelope

The original B-envelope amounted to 85 million Euro of which 50 million was for the SYSMIN Mining sector support programme... The 2004 MTR reduced the remaining 35 million Euros by 9 million Euros, and following PNG's eligibility for FLEX allocation for 2003 22.4 million Euro was transferred to the A-envelope, leaving 2.6 million Euro in the B-envelope for unforeseen needs.

4.5. Other instruments

4.5.1. STABEX

Two FMO agreements were in place during 2004:

- ‘FMO 94, including the balances of FMO 92/93’, which provides for the use of the Stabex funds for the improvement of agriculture and rural development related projects throughout Papua New Guinea, and
- ‘FMO 94 Bougainville’ focussed on funding of rehabilitation of agriculture following the civil war in the Province.

‘FMO 94, including the balances of FMO 92/93’ specified the use of the funds made available on Cocoa and Coconut, Coffee, Oil Palm and diversification. Directed by a Steering Committee whose members are drawn from national agencies concerned with rural development these Stabex funds have been used for small, high impact interventions in the specified crops and associated agricultural activities, varying in size from €35,000 to €1 million.

Over the life of the programme a total of 78 projects were funded while during 2004 21 projects were active and an additional 3 projects were designed and awaiting start-up. These projects were allocated as follows - Cocoa and Coconuts (1), Coffee (8), Oil Palm (4) and a further 8 projects supporting agricultural research and alternative crops.

In line with the government’s Medium Term Development Strategy (MTDS) 2005-2010 the Stabex programme supported the key policy of an Export Driven Economic Recovery Strategy based on agriculture. To this end Stabex funding:

- in the coffee sector was focussed on enhancing the value of green bean coffee exports through a quality improvement programme, organising smallholder producers into cooperative groups and related research support. In its second year of operation in 2004 some 14% of PNG coffee was exported to ‘speciality markets’ securing enhanced prices.
- funding in the cocoa sector similarly promoted cocoa marketing. PNG cocoa exports increased during 2004 by some 5%.
- in the oil palm sector the emphasis was on pest and disease control via biological methods and improving the use of fertilizers through better placement during application.
- funding made available for alternative crops included a pilot project to evaluate the growing of cashews on the nucleus estate/smallholder outgrower model and the commercialisation of native nut species, in particular galip (or nali) nut.

FMO 94 Bougainville, representing the EU contribution to promoting the peace process in the Province was designed to primarily re-establish the cocoa sector, which prior to the conflict with production at approximately 19,000 tonnes per annum represented almost 50% of PNG’s total cocoa production. The programme distributed hybrid sufficient seeds and/or seedlings to smallholder farmers for the planting of 1 ha of cocoa, funded essential maintenance for selected feeder roads to cocoa growing villages, upgraded port facilities to enable storage and shipping, micro-credit facilities for individual farmers to re-establish fermentation and drying capacity and supported technical and vocational training in agriculture, carpentry, metalwork and basic construction to enable farmers to build the facilities. In addition, minor amounts were made available for alternative crops and micro-credit for women’s groups.

Since commencement of the programme a total of 18 projects have been funded. During 2004, in addition to funding the Bougainville Project Implementation Unit 11 projects were active, covering feeder road upgrading (5), establishing technical and vocational education facilities (5), and providing marketing facilities and design of a micro-credit institution. The latter was a collaborative programme involving Asian Development Bank, AusAID and the Bank of Papua New Guinea’s Micro-Credit Competency Centre.

Considerable progress was achieved during 2004 with

- some 35km of feeder roads brought into service
- reconstruction of 4 vocational schools nearing completion. The vocational schools are being constructed by students as part of their training. This programme is supported by Austrian volunteers via Horizon 3000.

- cocoa production reached 12,000 tonnes in 2004, up from approx. 3,500 at the commencement of the programme.
- a feasibility study for the Micro-Credit institution was completed and reviewed.

4.5.2. *SYSMIN*

The Sysmin mining sector support programme objectives are in line with the government's Medium Term Development Strategy 2002-2007. The Sysmin Programme implementation started in January 2004 with the arrival of the Technical Assistant. Six programme components were prepared for tender in 2004. In 2004, a Start-Up Work Programme and Programme Estimate No.1 were prepared and the MSSP unit established and functioning. During this period, TORs and tenders for six (6) projects under the programme were prepared and ready for tendering.

Positive developments within the Department of Mining were the endorsement of the establishment of the Mineral Resources Authority by the National Executive Council. This indeed paved the way for the implementation of the largest project, the Airborne Geophysical Survey of the PNG Highlands and the Papuan Peninsula.

During this period, it was also envisaged that due to certain delays in the tendering process, there was a need to request extension of the Financing Agreement.

4.5.3. *Regional Co-operation*

PNG benefits from 5 regional projects undertaken under the regional programme. These compliment the two focal sectors of EU intervention in Papua New Guinea. The projects are:

- Plant Protection in the Pacific II (Project No. 8.ACP.RPA.8 AND 8.PTF.REG.3)
- Development of Sustainable Agriculture in the Pacific (Project No. 8.ACP.RPA.10)
- Pacific and Regional Oceanic and Coastal Fisheries (ProcFish) (Project No. 8.ACP.RPA.4)
- Reducing Vulnerability of Pacific States (Project No. 8.ACP.RPA.7)
- Pacific Regional Initiatives for the Delivery of Basic Education (PRIDE) (Project No. 9.ACP.RPA.001)

Administratively, regional projects report to the EC Delegation in Fiji but are expected to provide copies of all reports to the Delegation in Papua New Guinea. While this convention has not been consistently adhered to some projects provide both verbal and written reports.

A key aspect of regional integration is the trade related support. In PNG, trade-related support will be partly provided through the regional programmes, global ACP facilities and projects financed under the NIP. The following EU supported EPA/trade related activities are foreseen in PNG:

- ⇒ A work programme under the TCF providing TA and funding of a trade advisor to the minister has been discussed since January 2005 and should be finalised any day now. The delays have mostly been caused by internal squabbling in DTI on the location of the project and initial proposals that purely focused on support to wage top-ups and operational costs.
- ⇒ A long-term TA project is planned to be financed under the NIP. The PIF is planned for end May with approval end of year (simplified procedure). The budget could amount to about €2 million and would continue the support to the trade advisor plus operational support, possible supported by a long-term international TA and a facility for calling in short term TA and training.
- ⇒ DTI has secured funding for a WTO related project under the €10 million WTO facility. The training provided under this project should also benefit those involved in EPA preparation.
- ⇒ DTI has also applied for a project from the EPA support facility (the €20 million facility). This application in its present form will be partly covered by the work programme mentioned above. However, some international expertise to review strategies etc. would from the delegations point of view is very worthwhile.

- ⇒ Within the Trade.com project, PNG also benefits from a ODI fellow placed in DTI and dealing with trade-related issues.

The extent to which PNG can benefit from the activities funded under the regional programme still needs to be explored and coordinated with the national activities.

4.5.4. *Community Budget lines*

There are two NGO budget line projects currently active in Papua New Guinea, namely,

- Integrated Initiative for Biodiversity Conservation and Sustainable Community Development (Project No. PVD/2000/236) implemented by Village Development Trust and Horizon-t 3000.
- Conservation and Sustainable Development for the Future of PNG – A National Perspective (Project No. PVD/2000/237) implemented by Conservation Melanesia and ICCO.

Up until the time of devolution these projects reported directly to AIDCO with little or no interaction with the Delegation.

- In late 2004 the Delegation was advised that under the Call for Proposals EuropeAid/117490/C/G WWF South Pacific had been selected to implement a project entitled “Conservation and Sustainable Use of the Marine and Coastal Biodiversity of the Bismark Solomon Seas”. A contract will be drawn up and managed by the PNG Delegation.

4.5.5. *European Investment Bank*

No funding activities during 2004. However, a couple of missions have been undertaken by EIB and they have particular indicated interest in co-financing the government’s and/or the local landowners’ share of the Queensland-PNG Gas pipeline project

4.5.6. *ECHO*

No activities in 2004.

5. PROGRAMMING PERSPECTIVES FOR THE FOLLOWING YEARS

The 2004 Mid-Term Review resulted in reduction of the A-envelope from €81m to €71m and the B-envelope from €35m to €26m. Consequently the resource allocations to the National Indicative Programme (including €1.5 million transfers from old EDFs) have been reprogrammed as follows:

- Education, Training and Human Resources Development, €39 million
- Rural Water Supply and Sanitation, €20 million
- Institutional Capacity Building and Governance, €13.5 million (of which €1.5 million have been reserved for Non State Actors).

As already indicated, the feasibility studies of both focal sector programmes were completed in 2004 and their financing proposals were sent to the Commission in Brussels before the end of the year. Although, there have been further delays in the implementation of these focal sector programmes due mainly to request from AIDCO for further refinements of the Financing Proposals, the Delegation and the NAO office are confident of committing these funds before the end of 2005.

As Papua New Guinea was subsequently eligible to FLEX allocation of €22.44million from the B-envelope, this amount was transferred temporarily to the non-focal sector, Institutional Capacity Building and Governance in expectation that PNG could qualify for budget support as it strives to improve on its public financial management. The transfer brings the total resources available to PNG under the A-envelope back up to €94.9 million, with €3.56 million left in the B-envelope for unforeseen needs. Following review of old RAL, the total decommitments that are requested/are expected to be made in the near future amounts to 6 million €.

It is envisaged that € 5 million will be taken from the considerably increased resources in the Institution Capacity Building and added to Rural Water Supply and Sanitation to bring the funds available for this focal sector programme back up to the original allocation of €25 million. Furthermore, 3.4 million € is planned to be used for the Gazelle Restoration Authority (GRA) project of which 2.7 million € originates from decommitments of previous commitments intended to support the GRA.

The source and use of programmable funds (the A-envelope) now looks as follows:

Source of funds	Million €	Planned use of funds	Million €
Original A-envelope	81.0	Decided (TCF and NAOPS III)	6.2
Deduction MTR	-10.0	HRDP III (35 + 4)	39.0
Flex 2003	22.4	RWSS (25 + 5)	25.0
Decommitments 6,7,8 th EDF	ca. 6	GRA	3.4
		Still to be committed	<u>25.8</u>
Total	99.4	Total	99.4

Status/plans for individual projects:

The immediate programming perspective concerns the commitment of the remainder of the 9th EDF. The status for the individual projects are summarised below:

- **Human Resource Development Project – Phase III (HRDP III)** 39 million Euro. The financing proposal is under revision and planned to be approved before the end of 2005.
- **Rural Water Supply and Sanitation Project (RWSS)** 25 million Euro. Minor improvements in the FP are being made following comments from the QSG. Approval of Financing proposal is expected in second half of 2005.
- **Gazelle Restoration (GRA)** 3.4 million Euro. Various clarifications on the FP are being given to HQ following comments from QSG with approval of financing proposal expected in June 2005.
- **Governance and capacity building project** 20 million Euro. The formulation of this project has not started. A strong focus on capacity building is foreseen as well as support to NSA. It is planned to submit a FIP in June 2005. Approval of the FP is only foreseen in the first half of 2006.
- **TRA - Capacity building in Department of Trade and Industry** 2 million Euro. As a part of the non-focal sector governance support is foreseen to be provided to DTI to enhance capacity for development of trade policy and participation in international trade negotiations, in particular the EPA.

Technical and human capacities

The Papua New Guineas Delegation and the NAO are now better prepared to meet the programming and implementation challenges and ensuring PNG's ownership of its development process, thanks to expected improvements in their technical and human capacities. The staff of the Delegation has been boosted within the framework of deconcentration, although not all positions have yet been filled.

The capacities in the government for the management and administration of the EDF programme and projects have been supported through various projects, so-called NAO Support Projects. The NAOSP II came to an end in December 2004 and a new and larger NAO support project NAOSP III is being implemented with the TA expected to be in place in August 2005.

Post 9th EDF

It is still too early to discuss the directions of the post 9th EDF programming – it is necessary first to have a proper overview of the preliminary results under the 9th EDF. Key elements that may influence the direction of the post 9th EDF include:

- The development in absorption capacity and the government's role in formulating a clear strategy for the effective use of EU assistance
- The role of the Australian aid and how proper modalities for coordinating various donor initiatives develop
- Possible improvements in governance and public expenditure management which could open for providing budgetary support.

As preparation for the post 9th EDF programming, the planned evaluation of the assistance to PNG would constitute a key element and further it should be considered to make specific sector assessments, e.g. of the present agricultural development strategies.

6. DIALOGUE WITH THE NAO AND NSA, AND DONOR CO-ORDINATION

6.1. Dialogue in country with the NAO and non-state actors

The delegation has regular contact with the NAO and the staff supporting the NAO. On operational level, this there is nearly daily contact and larger meetings are held quarterly and meetings at Delegate-Secretary level are held when need arises.

Involvement of the NSA. The major programmes have all specific focus on NSA, with projects directly targeting NSA in the form of capacity building or as vehicle for implementation, e.g. in establishment and management of rural water schemes. Furthermore, NSAs have been extensively consulted during project formulation. The NSAs have not been systematically involved in the formulation or review of activities at the program level. This is partly a result of limited resources and the weakly organised NSA making it difficult to engage with the NSA sector at too broad a level.

6.2. Donor coordination

There is no comprehensive approach to donor coordination in PNG; neither from the government's side nor from the donors'. There are examples of donors coordinating around a well-developed sector strategy, e.g. in the health sector. However, the effectiveness of these efforts has been questioned, partly because of lack of broader government strategic framework supporting the implementation of such sector plans.

The only member states represented in PNG is UK and France. However, none of the countries have an assistance programme with PNG and the coordination with member states takes thus form of discussions and consultations as need arises.

Government

One of the divisions within the DNPRD is the Aid Coordination and Management Division (ACMD). The goal of the ACMD is to guide, lead and direct efficient and effective mobilisation, coordination and management of all official development assistance (ODA) in accordance with the National Government's Aid Policy.

The ACMD maintain relationships with all donors and serve as the focal point for administering international aid. However, the ACMD has not taken on an active role of overall coordination of aid from different donors with the aim of aligning donors behind government policies.

With the MTDS 2005-10 the government has more actively expressed the need for all the donors to align their interventions behind this strategy. However, the institutional arrangements for such coordination are still unclear. The Prime Minister's office initiated discussions with the major development partners on possible institutional arrangements for such coordination.

Donor contributions

The ACMD prepares regular reports on the activities of the donors in PNG. There is, however, no systematic recording or reporting of donor commitments to various sectors, nor of actual disbursements. The government does thus not have regular overview of the donor activities.

PNG operates with a recurrent budget and a development budget. All donor contributions are recorded in the development budget, which is heavily dominated by funding from donors. The composition of the development budget in the 2004 budget was as follows.

Grants from Donors	849.7 million	64.8%
Concessional Loans	169.6 million	13.0%
GoPNG	230.4 million	17.6%
Tax (to raise & use throughout year)	60.6 million	4.6%
TOTAL	1,310.3 million	100%

The allocation of grant funding on the different donors in the 2004 budget is shown in the table below. Australia has a dominant position and with the full implementation of the ECP this share will even greater.

2004 (Budget Vol. 3)		
AusAID	616.7 m	74%
JICA	66.0 m	8%
EU	53.5 m	7%
World Bank	34.8 m	4%
ADB	27.5 m	3%
N/Zealand AID	12.6 m	2%
Other	19.5 m	2%
TOTAL	830.6 m	100%

7. CONCLUSIONS

7.1. Key political, economic and social developments

Political developments. The present government, led by Sir Michael Somare, has been in office since the election in 2002. There has been a number of reshuffles of the cabinet essentially to fend off motions of no-confidence and to muster support for a proposed change of the Organic law on the Integrity of Political Parties designed to extend the grace period of no-confidence from 18 to 36 months. The government has, however, been unable to secure support for this amendment.

After the last election, PNG changed its electoral system from first-past the post to limited preferential voting (LPV). This change will have the potential for enhancing the accountability of parliamentarians, promote cooperation among MPs, leading to more stable governments with a broader representation. During 2004, 5 by-elections were conducted using LPV. The results were encouraging. But, in spite of extensive security support, there were still examples of vote rigging and minor incidents. Evaluations of the elections also suggest a clear need for education of voters and candidates on the functioning of the new system.

The normalisation of the situation in Bougainville seems to approach its final stage. A new constitution for the province giving it greater autonomy was adopted in December 2004 and elections are scheduled to take place in the first half of 2005. The UN observer mission (UNOMB) was asked to extend its mandate for half a year (originally scheduled to end by the end of 2004) and stay in Bougainville until after the election.

Governance. The quality of governance continues to be a key issue in PNG. Compared with other countries with similar level of income, PNG is generally perceived to have a markedly lower level of governance. There are serious problems with law and order in main urban centres and certain parts of the Highlands. A recent report noted that the effectiveness of the police was in decline. Corruption in PNG is perceived as systemic and is viewed as a serious problem because of weaknesses in accountability and enforcement. Disbursements under loans from ADB and the WB continue to be suspended due to the government not complying with specific governance conditions. The government has strengthened various watchdogs such as the Parliamentary Public Accounts Committee and the Ombudsman. The Government continues to persevere with its fiscal and public sector reform programmes. A significant initiative the Public Expenditure Review and Rationalization (PERR) reforms, seeking to ensure ongoing macroeconomic stability and to improve the quality of government expenditure, made further progress in 2004 with the establishment by Cabinet of a PERR Implementation Committee.

Partly in response to the governance problems in PNG, Australia and PNG agreed on the Enhanced Cooperation Programme in 2003. The ECP will see the placement of up to 64 Australian officials in key ministries, notably Finance and Treasury, Justice, Immigration to promote good governance plus 230 police officers in the PNG police force. By the end of 2004, 64 police officers and 32 administration/legal staff had taken up their duties.

Economic situation. Over the last decade, per capita income has decreased by more than 20%. However, starting in 2003 and continuing in 2004, the economic situation has started to improve. GDP, in real terms, grew by 2.6% and 2.8% respectively. Inflation reached a record low of 3.7% in 2004 and the public budget showed a surplus in 2004 equal to 1% of GDP. The improved economic situation is to a large extent the result of higher prices for key export commodities, in particular oil, copper and gold, however combined with prudent monetary policy and improved fiscal performance.

The level of public debt, which was seen as a serious problem just a few years ago, seems to have been brought partly under control. Since 2002, the public debt, measured as a percentage of GDP, has fallen from 70% to 54%. This positive development results from a combination of factors: positive economic growth, improved fiscal balance and the appreciation of the Kina. The strong decrease in interest rates will also significantly reduce the impact of the domestic debt.

Extraction of minerals and oil production play a vital part in the PNG economy, representing about 25% of GDP, 70% of total exports and around 20% of government revenue. Production from existing facilities is expected to decline in the near future and concerns had been voiced over the prospects for renewing the

production base. However, at the end of 2004, prospects for both the long discussed PNG-Australian gas project and the Ramu Nickel mine looked promising. In particular the gas project would, with a government share of around 20%, have important effects on government revenue from around 2009.

The second phase of the negotiations of Economic Partnership Agreements (EPA) between EU and the Pacific States was launched in Fiji in September 2004. PNG, which represent 80% of the population in the region, has during 2004 taken a more active stance towards the EPA process and has been appointed lead spokesperson for the agricultural (including biodiversity, forestry and mining) section.

Social situation. With a rank of 133 out of 175 on UNDP's Human Development Index, PNG has one of the lowest scores in the Asia-Pacific region. Social indicators lag behind neighbouring countries, in particular for life expectancy, infant mortality and literacy rates. Over the last decade, improvements have been made in social indicators but at a slower pace than that of the region in general.

AIDS/HIV infections in PNG have reached critical levels and the continued spread of the disease may pose the single largest challenge to development efforts in PNG. Recently PNG was declared the 4th country in Asia Pacific region with a generalised epidemic. Efforts to curb the continued rise of the disease are guided by the 2004-2008 PNG National Strategic Plan (NSP) on HIV/AIDS.

As a signatory to the UN Millennium Declaration, PNG had committed itself to the 8 Millennium Development Goals. Limited monitoring of these indicators has been undertaken but a report on the status of key MDG indicators in PNG was prepared during 2004. The report established a baseline for year 2000 of MDG indicators. The exercise led to a realisation that that PNG will not be able to meet the MDG targets by 2015 and a set of revised targets have been adopted in PNG's Medium Term Development Strategy (MTDS).

PNG's development agenda. The Somare Government's Programme for Recovery and Development was announced in August 2002 and defines three broad-based interrelated development objectives: i) good governance, ii) export-driven economic growth, and iii) rural development, poverty reduction and empowerment through human resource development. The MTDS 2005-10, adopted in November 2004, is the key strategic policy paper supporting the achievement of these objectives. The MTDS defines seven development priorities and outlines the corresponding medium term expenditure frameworks for these sectors (Rehabilitation and Maintenance of Transport Infrastructure, Promotion of Income Earning Opportunities, Basic Education, Development Oriented Informal Adult Education, Primary Health Care, HIV/AIDS Prevention as well as Law and Justice). A National Poverty Reduction Strategy (NPRS) has been elaborated in 2003 but is not yet adopted.

7.2. Developments in poverty alleviation

Poverty reduction is one of the key MDG and PNG has set a target to reduce the number of persons living below the poverty line by 10% by 2015 as compared to the benchmark of 30% from the 1996 household survey. No household surveys have been conducted since 1996 so there are no updated figures for the actual developments in poverty. The household survey undertaken in 1996 defined the poverty line based on a specific level of daily calorific intake and is thus not directly comparable with the international poverty line of 1 USD per day.

Since 1996, the GNI per capita has decreased markedly due to a combination of negative economic growth and high population growth. The GDP growth in year 2003 and 2004 of about 2.8% p.a. was just slightly higher than the growth in the population. There are thus strong indications that the incidence of poverty has increased significantly since 1996.

The World Bank has attempted to model how the level of poverty has developed during the last 10 years based on the income distribution from the 1996 survey and sector-level economic developments. Based on the 1 USD per day poverty measure, this exercise found that the poverty in PNG has risen from 25% in 1996 to just below 40% in 2004.

7.3. Results and activities in focal sectors and relevant programmes

The implementation, of the 9th EDF programmes is behind schedule with only 8% of the original A-envelope committed. By the end of 2004 no money had been disbursed from the 9th EDF. Financing proposals for the two focal sectors were prepared during 2004 but the approval of these projects has been delayed. Payments under existing projects (mainly 8th EDF) amounted to 10.6 million Euro. Individual commitments amounted to 12 million Euro

The 2004 Mid-Term Review (MTR) resulted in a reduction of the A-envelope by 10 million Euro and a reduction of the B-envelope by 9 million Euro, reflecting serious problems in relation to PNG's absorption capacity. Subsequently, the FLEX review for 2003 resulted in 22.4 million Euro being mobilised from the B envelope raising concern over absorption capacity again. About 6 million Euro have/are expected to be de-committed from old projects resulting in a total A envelope of nearly 100 million Euro and a B-envelope of 3.6 million Euro reserved for unforeseen needs.

9th EDF focal sectors and programming of the A-envelope

The 9th EDF's focal sectors are the Education, Training and Human Resources Development Programme (original allocation 35 million Euro subsequently increased by 4 million Euro) and the Rural Water Supply and Sanitation Programme (€25 million). Both are consistent with the government's development priorities of rural development and education, especially focusing on primary education and literacy for all. The feasibility studies of both programmes were completed in 2004 and their financing proposals were sent to the Commission in Brussels before the end of the year, but they need further refinement.

The non-focal sector programme, Institutional Capacity Building and Governance (originally €21m), is an important cross-cutting issue of key importance in PNG. Two financing proposals have been made within this sector, one for the third technical support programme to the NAO's office (€ 4.2 million) and another for the Technical Cooperation Facility (€1.99 million). Furthermore, 3.4 million Euro is planned to be used for the Gazelle Restoration Authority (GRA).

A comprehensive project for the remainder of the funds, which have been substantially increased with the transfer of FLEX resources from the B to the A envelopes, will be designed in 2005. The project will include the capacity building of Non-State Actors. This gives the following overview for the programmable part of the NIP under the 9th EDF.

Source of funds	Million €	Planned use of funds	Million €
Original A-envelope	81.0	Decided (TCF and NAOPS III)	6.2
Deduction MTR	-10.0	HRDP III (35 + 4)	39.0
Flex 2003	22.4	RWSS (25 + 5)	25.0
Decommitments 6,7,8 th EDF	<u>ca. 6</u>	GRA	3.4
		Still to be programmed	<u>25.8</u>
Total	99.4	Total	99.4

It is too early to review the results achieved in the focal sectors. The defined policy measures in the EU-PNG country strategy paper have been addressed during feasibility studies and project formulation.

Implementation of other projects

Within the 8th EDF focal area Rural Development/Environment two projects are being implemented: Eco-forestry Programme (€7.5 million) and Rural Coastal Fisheries Programme (€6 million). Mid-term reviews were undertaken for both projects during 2004. Results were only partially met and delays had been experienced, mainly due to delays in initial mobilisation. Extensions of both Financing Agreements are planned. In addition, the Sexual Health Project (€3.5 million) seeks to develop and promote implementation of peer education programmes in PNG.

The Mining Sector Support Programme (€50 million) is being financed under the SYSMIN programme. After some initial delays, the TA was in place in the start of 2004 and implementation has proceeded smoothly. Due to certain delays in the tendering process, a request for the extension of the Financing Agreement will be most likely be sought by the NAO in 2005.

Projects financed under the STABEX facility continued to contribute to the agricultural development. The FMO-99 (about €0.6 million) will be submitted in the first half of 2005 and it will specifically target the coffee sector.

7.4. Specific efforts related to the improved use and management of EDF resources

Donor coordination. There is no comprehensive approach to donor coordination in PNG; neither from the government's side nor from the donors. There are, however, examples of donors coordinating around a well-developed sector strategy, e.g. in the health sector. The government is increasingly taking a proactive role in donor coordination. The Prime Minister's Office has initiated a dialogue with key donors on how a structure for more systematic management and coordination of donors could be organised and integrated into PNG policy making. The donors among themselves have started to hold regular meetings to enhance dialogue and coordination.

NAO cooperation. The Delegation has regular contact with the NAO and the staff supporting the NAO. On operational level there is nearly daily contact with more formal meetings being held quarterly. Meetings on Delegate-NAO/DNAO level are held when need arises. This system is working at the technical level but would need stronger emphasis and commitment at the higher level. The capacity of the NAO system is enhanced through technical and financial support. The NAO support programme phase II came to an end in December 2004 and a new technical assistance under the NAOSP III is expected to arrive in the second half of 2005.

Involvement of the NSA. The major programmes have all specific focus on NSA, with projects directly targeting NSA in the form of capacity building or as vehicle for implementation, e.g. for establishment and management of rural water schemes. Furthermore, NSAs have been extensively consulted during project formulation. The NSAs have not been systematically involved in the formulation or review of activities at the program level. This is partly a result of limited resources and the weakly organised NSA making it difficult to engage with the NSA sector at too broad a level.

7.5. Key perspectives for the future

The key task for the immediate future is to complete the design and programming of the 9th EDF. This comprises the improvements to the financing proposals for the programme in each of the two focal sectors and the formulation of the remaining programme in the non-focal sector.

The non-focal sector will focus on governance and capacity building where about €25 million remains to be programmed. A project of 2 million Euro for capacity building in trade policy formulation and negotiation is planned. The remaining funds are expected to be used for a range of governance/capacity building purposes, including support to non-state actors.

It is still too early to discuss the directions of the post 9th EDF programming – it is necessary first to have a proper overview of the preliminary results under the 9th EDF. Key elements that may influence the direction of the post 9th EDF include:

- The development in absorption capacity and the government's role in formulating a clear strategy for the effective use of EU assistance
- The role of the Australian aid and how modalities for coordinating various donor initiatives develop
- Possible improvements in governance and public expenditure management which could open possibilities for providing budgetary support.

As preparation for the post 9th EDF programming, the planned evaluation of the assistance to PNG would constitute a key element and further it should be considered to analyse elements of the government's development strategy, e.g. plans for the promotion of rural development.

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Annex 1: Intervention framework and indicators for the focal sectors

A. Intervention Framework: Education, training and human development (Financing proposal is under revision)

<i>Education, Training and Human Resources Development Programme</i> €39million	Performance Indicators	Sources of verification	Assumptions
Overall Objective To promote the development of Papua New Guinea's human resources	Measurable increases attributable to Programme activities in the numbers of qualified workforce	Socio-Economic Surveys, <i>Ex-Post</i> Evaluation	Government maintains education's share in national budget allocations
Programme Purpose Number of students (particularly girls and young people in rural areas) obtaining basic education qualifications and marketable skills increased.	Measurable increases attributable to Programme activities in the numbers (particularly girls and young people) graduating from general education, vocational and in-service training	<ul style="list-style-type: none"> * Statistics of the National Department of Education * Training Statistics (NTC) * Statistics of the Department of National Planning and Monitoring * Department of Local Education Surveys of employers 	<ul style="list-style-type: none"> * Most teachers remain in place and report regularly to work. * Inspectors visit schools on a regular basis
Results Number of women and girls having access nationwide to education substantially increased; access to demand-driven vocational training increased; quality of learning upgraded; workforce skills upgraded; quality assurance in place at provincial level; maintenance of schools and equipment, improved communications with remote schools	<ul style="list-style-type: none"> * Enrolment in vocational training courses and elementary and primary schools increased by 30% and 15% respectively * Number of females at all levels increased by 12%; * Measurable increases in internal examination pass rates linked with programme activities. * Every primary and elementary school in PNG inspected during 2004 and thereafter. 	<ul style="list-style-type: none"> * Project Reports * Statistics of the National Department of Education * Surveys of employers * Training Statistics (NTC) * Statistics of the Department of National Planning and Monitoring and the Department of Local Education * Ad hoc monitoring by NAO and Delegation staff 	<ul style="list-style-type: none"> * Effective co-ordination of all donor-funded projects at every phase of the cycle across HRD sector * Application of lessons learned from 1999 Country Strategy Evaluation * Full and co-operative involvement of relevant national departments, provinces, and Non-State actors * Effective liaison with the other 9th EDF programmes on Water Supply and Institutional Capacity building

B. Intervention Framework: Rural water and sanitation sector

<i>Rural Communities Water Supply and Sanitation Programme - €25 million</i>	Performance Indicators	Sources of verification	Assumptions
Overall Objective Increase access of rural communities to safe water supply	Measurable increases in access to safe water attributable to programme activities in priority provinces	Socio-Economic Survey, Mid-Term reviews, Ex-Post, Evaluations	
Programme Purpose Access to safe water and sanitation of rural and communities facilitated, particularly for women and children	Measurable increases in the delivery of safe water (particularly to women and children), attributable to programme activities	<ul style="list-style-type: none"> • Statistics of Department of National Planning and Rural Development • Statistics of Safe Water delivery (PNG Water Resource Board) 	Willingness of local authorities to select villages according to health needs and poverty status
Results 1. Number of villages and schools receiving safe water supplies increased 2. Sanitation improved (number of pit latrines increased) 3. Infant mortality reduced 4. Incidence of waterborne diseases reduced 5. Income-generating activities (resulting from availability of time) increased 6. Number of communities trained in infrastructure maintenance and water resources management, including cost-recovery increased 7. Communities enabled to plan and construct their facilities 8. Projects successfully implemented with active participation of Non-State Actors and beneficiaries 9. Poverty alleviated	<ul style="list-style-type: none"> • Number of households and schools with access to safe water • Number of waterborne infections • Number of infant mortalities • Volume of income-generating activities • Number of communities trained in water management 	<ul style="list-style-type: none"> • Statistics of the Department of National Planning and Rural Development • Statistics of the Ministry of Health • Surveys of selected Communities concerned by programme • Ad hoc monitoring by NAO and Delegation staff 	<ul style="list-style-type: none"> * No major disputes between villages or communities over rights to sources or access to sources * Local authorities support project activities directly or permit NSAs to carry out works * Communities are fully informed and involved in project activities

C. Intervention Framework: Institutional capacity building and governance (project still to be formulated)

<i>Institutional Capacity building and Governance - €20 million</i>	Performance Indicators	Sources of verification	Assumptions
<p>Overall Objectives</p> <p>Enhanced good governance and socio-economic framework.</p>	<ul style="list-style-type: none"> • Qualitative improvement in governance • Macro-economic indicators • No confidence motions in Parliament reduced 	<ul style="list-style-type: none"> • IMF and World Bank Reports • Media reports 	<ul style="list-style-type: none"> • Political Stability maintained • Cooperation with BWI institutions maintained
<p>Programme Purpose</p> <p>Good governance for sustainable development improved</p>	<ul style="list-style-type: none"> • Sustained macro-economic stability • Proper and equitable public resources allocation to social sectors • Shares of social sectors in public expenditure 	<p>Reports of the BWI and other donors</p>	<p>Political integrity of PNG retained: Bougainville remains part of PNG</p>
<p>Results</p> <ol style="list-style-type: none"> 1. Administrative and management capacities, formulation of policies, strategies and planning enhanced 2. Transparency in public expenditure management increased 3. Control Institutions strengthened 4. Departmental Co-ordination improved 5. Co-operation with stakeholders increased 6. Civil Society organisations and other Non-State Actors strengthened 	<ul style="list-style-type: none"> • Reports of BWIs • Reports of Transparency International • Project reports 	<ul style="list-style-type: none"> • Reports of NAO and Delegation • Media reports • Mid-Term reviews • Ex-post evaluations 	<p>Delegation has capacity for sustained monitoring of political process.</p>

D. Sectoral Indicators: Education, training and human development

Type	Indicators	2000	2001	2002	2003.	2004	Targets 2008	Targets 2014	Sources of verification	Government Policy Measures
Impact										
Outcome	Enrolment – elementary level ('000) - year on year increase Primary school enrolment rates	148.8 24.9%	180.2 21.1%	240.1 33.3%	280.0 16.6%		425 8.7% 62.3%	604 5.7% 69.8%	Annual report, DoE	
Output	(To be defined in connection with the final formulation of the financing proposal)									
Input	Government budget allocations (% of total government expenditure)	13.5%	12.5%	13.9%	12.6%	12.8%				

E. Indicators - Water Supply and Sanitation Indicators

Type		Indicators	2000 B/year	2001	2002	2003 Est	2004 Target	2005 Target	Key assumptions/ Status for policy commitments
Impact	Health and quality of life improved and poverty alleviated.								
Outcome	-Access of rural people (particularly women) to safe drinking water facilitated. Sanitation improved and income-generating activities increased.	Proportion of rural population with access to safe drinking water (%) Proportion of rural population with access to waste disposal systems Diarrhoea-related deaths rate (100000) Incidence of Malaria Maternal mortality rate (per 100000) Infant mortality rate (per 1000 live births) Under-five mortality rate (per 1000) Rural employment rate (%)		30 15 54 85	32 19 56 82	34 23 80	36 27 	40 31 1405 315 21 45	
Output	Households and schools provided with safe drinking water and waste disposal systems	Number of households and schools provided with water Number of communities trained in water management Number of waste disposal systems provided.							
Input	-Annual national Health budget the EDF contributions -Other donors' contributions.	Percentage of public spending on Health. Percentage contribution of EC other programmes							

Key Government targets (National Health Vision: Department of Health). Provide 40% of the population with safe drinking water by 2005, and 50% by 2010. Reduce Infant mortality per 1,000 to 65 by 2005 and 53 by 2010. Reduce child mortality per 1,000 to 20.5 by 2005 and 18 by 2010. Reduce maternal mortality per 100,000 to 315 by 2005 and 260 by 2010. Reduce diarrhoea-related death rate per 100,000 to 1405 by 2005 and 1200 by 2010.

Annex 2: Chronogram of activities (updated and including all financial instruments)

Country: Papua New Guinea

	2005												2006				Amount of proposal in million €	Budget line/ EDF	
	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sept	Oct	Nov	Dec	Q1	Q2	Q3	Q4			
RWSS																			
a) forecast						FD												25 million Euro	NIP
b) actual realised																			
Gazelle Restoration																			
a) forecast						FD												3.4 million Euro	NIP
b) actual realised																			
HRDP III																			
a) forecast							RFP				FD							39 million Euro	NIP
b) actual realised																			
Governance/Capaciyt building																			
a) forecast						PIF					DFP	FD						18 million Euro	NIP
b) actual realised																			
Trade-related assistance																			
a) forecast						PIF			DFP		FD							2 million Euro	NIP
b) actual realised																			

PIF = Submission of Project Identification Fiche (where applicable)
 DFP = Submission of Draft Financing Proposal to HQ
 RFP = Re-submission of Draft Financing Proposal to HQ
 FD = Financing Decision

Annex 3: Indicative timetable for commitments and disbursements

PAPUA NEW GUINEA - EDF SUMMARY FORECAST 2005 - 2006

(amounts in €)

	FORECASTS 2005			ESTIMATION of RISK FACTOR			FORECASTS 2006		
	1st SEMESTER	2nd SEMESTER	TOTAL 2005	Low L	Medium M	High H	1st SEMESTER	2nd SEMESTER	TOTAL 2006
PAYMENTS on ONGOING INDIVIDUAL commitments.	2,111,010	1,741,980	3,852,990	2,969,302	883,688	0	730,000	730,000	1,460,000
PAYMENTS on NEW INDIVIDUAL commitments	2,946,000	3,965,000	6,911,000	3,885,000	3,026,000	0	5,145,000	5,870,000	11,015,000
PAYMENTS on NEW GLOBAL commitments	1,000,000	1,000,000	2,000,000	2,000,000	0	0	3,800,000	3,800,000	7,600,000
TOTAL PAYMENTS	6,057,010	6,706,980	12,763,990	8,854,302	3,909,688	0	9,675,000	10,400,000	20,075,000
%	47%	53%		69%	31%	0%	48%	52%	

	FORECASTS 2005			ESTIMATION of RISK FACTOR			FORECASTS 2006		
	1st SEMESTER	2nd SEMESTER	TOTAL 2005	Low L	Medium M	High H	1st SEMESTER	2nd SEMESTER	TOTAL 2006
<u>NEW INDIV. commit. on ONGOING GOBAL commitments.</u>	10,501,000	17,350,000	27,851,000	comparable to risk profile of payments (%)			10,870,000	200,000	11,070,000
<u>NEW INDIV. commit. on NEW GLOBAL commitments</u>	2,500,000	0	2,500,000				11,900,000	8,900,000	20,800,000
TOTAL INDIVIDUAL COMMITMENTS	13,001,000	17,350,000	30,351,000	21,054,303	9,296,696	0	22,770,000	9,100,000	31,870,000
%	43%	57%		69%	31%	0%	71%	29%	

	FORECASTS 2005			ESTIMATION of RISK FACTOR			FORECASTS 2006		
	1st SEMESTER	2nd SEMESTER	TOTAL 2005	Low L	Medium M	High H	1st SEMESTER	2nd SEMESTER	TOTAL 2006
TOTAL NEW GLOBAL COMMITMENTS	3,400,000	66,000,000	69,400,000	30,400,000	39,000,000	0	20,000,000	0	20,000,000
%	5%	95%		44%	56%	0%	100%	0%	

Annex 4: Donor matrix

2005 DEVELOPMENT BUDGET FUNDING INDICATIONS

DONOR	SECTOR (PNG Kina Millions)						TOTAL
	PUBLIC ADMIN	SOCIAL SECTOR	LAW & ORDER	INFRA-STRUCTURE	AGRI & ENVIRON	ECONOMIC & FINANCE	
Australia (*)	136.1	221.5	393.1	78.0	5.2	7.1	841.0
New Zealand	0.1	11.3			3.3	1.0	15.8
EU	4.2	38.5		15.2	13.4	3.2	74.4
ADB (*)		17.0		70.0	8.0	18.0	113.0
WB (*)				53.6			53.6
Japan		9.9		54.1			64.0
Malaysia				0.6			0.6
GTZ					1.0		1.0
China					0.3		0.3
Joint Funding (*)	21.8	40.0	117.0	37.0	25.0		240.8
TOTAL	162.1	338.2	510.1	308.5	56.2	29.4	1404.5
TOTAL GoPNG	19.7	46.3	5.6	121.0	14.2	50.4	257.1
TOTAL DONOR & GoPNG	181.9	384.4	515.7	429.5	70.4	79.7	1661.6

Source: Public Investment Programme, Vol. 3 (Papua New Guinea National Budget Paper, 2005)

Notes:

The table summarises the information on expected donor funding as included in the underlying data for the 2005 development budget. Part of the donor funding going to sub-national level is not included. Also funding of certain projects are not included in the budget process and thus not included here, e.g. a part of the donor funding from China.

A number of donor projects are jointly funded by donors and the PNG government. This concerns in particular some of the projects from WB, ADB and Australia where the data for the development budget does not include a specification of the share of each party. These are included in the table as "Joint Funding" which predominantly cover donor funding but where it is not immediately possible to see the source of the funds.

Annex 5 Financial situation 9th EDF

9th EDF

	No.	Project Title	Global Commitment (Euro)	MOVEMENT 2004		STATUS 2004	
				Commitments (Euro)	Payments (Euro)	Commitments (Euro)	Payments (Euro)
A. National Indicative Programme							
	1	Technical Cooperation Facility.....	1,990,000	60,000	-	-	-
	2	NAO Support Programme III.....	4,200,000	-	-	-	-
Subtotal National Indicative Programme			6,190,000	60,000	-	-	-
GRAND TOTAL 9TH EDF			6,190,000	60,000	-	-	-

Annex 6 Financial situation 8th EDF

8th EDF

	No.	Project Title	Global Commitment (Euro)	MOVEMENT 2004		STATUS 2004	
				Commitments (Euro)	Payments (Euro)	Commitments (Euro)	Payments (Euro)
A. National Indicative Programme							
	2	Appraisal Eco-Forest & Environ. Progr.....	90,131	-	-	90,131	90,131
	3	HRDP II.....	24,000,000	1,056,577	6,587,508	18,494,497	16,478,361
	4	EU Programme management Unit in support of th	1,981,102	41,728	588,939	1,943,669	1,946,354
	5	Eco-Forestry Programme.....	7,500,000	1,698,370	1,012,735	7,262,870	3,534,951
	6	Feasibility Study for Crime Reduction Project.....	-	-	-	-	-
	7	Feasibility Study for AIDS Project.....	65,000	-	-	61,650	60,743
	9	TA to the Central Supply & Tenders Board.....	62,000	-	-	-	-
	10	Gazelle Rest. Auth. MT Restoration Progr.....	666,105	-	-	666,105	310,850
	14	Sexual Health Project.....	3,500,000	958,000	1,043,446	2,395,500	1,349,882
	17	Rural Coastal Fisheries Dev. Project - PIS.....	6,000,000	1,925,300	1,314,903	3,939,101	2,084,947
	19	Improvement of Rural Primary Education Facilitie	5,000,000	739,200	642,299	739,200	642,299
Subtotal National Indicative Programme			48,864,338	6,419,175	11,189,830	35,592,723	26,498,518
B. STABEX							
	13	Stabex 99 coffee - Raw or Roasted.....	583,830	-	-	583,830	583,830
Subtotal STABEX			583,830	-	-	583,830	583,830
C. SYSMIN							
	8	Sysmin Eligibility Study & Progr. Ident.....	-	-	-	-	-
	12	Sysmin Eligibility Study & Progr. Ident.....	500,000	-	6,847	500,000	481,956
	18	Mining Sector Support (MSS).....	50,000,000	2,534,700	605,274	2,534,700	605,274
Subtotal SYSMIN			50,500,000	2,534,700	612,121	3,034,700	1,087,230
D. Other EDF funding							
	1	Humanitarian Aid.....	78,611	-	-	78,611	78,611
	15	Structural Adjust. Support Prog. (2000/2001).....	4,600,000	-	-	4,600,000	4,600,000
	16	Structural Adjust. Support Prog. (2000/2001).....	5,800,000	6,139	-	5,275,039	5,275,039
Subtotal Other EDF Funding			10,478,611	6,139	-	9,953,650	9,953,650
GRAND TOTAL 8TH EDF			110,426,779	8,960,014	11,801,951	49,164,903	38,123,228

Annex 7 Financial situation 7th EDF

7th EDF

No.	Project Title	Global Commitment (Euro)	MOVEMENT 2004		STATUS 2004	
			Commitments (Euro)	Payments (Euro)	Commitments (Euro)	Payments (Euro)
A. National Indicative Programme						
1	TA for Dept. of Works.....	159,010	-	-	159,010	159,010
3	2 Structural Adjustment Programme.....	4,000,000	-	-	4,000,000	4,000,000
8	Environmental Monitoring of Mines.....	32,769	-	-	32,769	32,769
9	LomeIV Microproject Programme.....	3,390,000	301,941	261,634	3,391,941	3,299,756
13	LOME IV Human Resources Develop. Progr.....	54,225	-	-	54,225	54,225
15	Human Resources Development.....	57,059	-	-	57,059	57,059
17	Human Resources Development Programme (HRD.....	14,750,000	-	-	14,553,998	14,320,723
18	Rural Water Supply 2nd microprojects progr.....	4,537,502	-	-	4,517,730	4,528,146
22	TA Dep. Works.....	750,000	-	-	743,403	743,403
23	Ramu HighWay Study.....	679,009	-	-	679,009	679,009
24	TA to Dep. Of Works.....	2,704	-	-	2,704	2,704
25	HRDP Training evaluat. & mission.....	35,453	-	-	35,453	35,453
26	Environmental Monit. & Manag. Of Mining.....	1,600,000	(71,457)	-	1,249,495	1,249,495
31	Ramu HighWay Upgrading.....	8,000,000	-	-	7,900,000	7,613,853
33	Architectural & Building Services.....	107,176	-	-	107,176	107,176
34	EU-PMU in support of NAO.....	1,199,917	-	-	1,199,917	1,199,917
38	Islands Region Env. Programme.....	31,502	-	-	31,502	31,502
40	HRDP Implementation.....	15,455	-	-	15,455	15,455
41	Enb High Scool Emergency Upgr. Progr.....	2,024,953	-	-	2,024,953	2,024,953
46	4th Structural Adjustment Programme.....	2,000,000	-	-	2,000,000	2,000,000
47	Lome IV HRDP Phase II.....	45,760	-	-	45,760	45,760
52	Séminaire Procédures FED.....	22,548	-	-	22,548	22,548
54	Training Seminar on EDF financial proc.....	28,355	-	-	28,355	28,355
55	Gazelle Rest. Auth. Microproj. Progr.....	1,500,000	-	(846,208)	1,500,000	11,401
56	Feasibility Study: improv. of Rural Educ. Fac.....	123,759	-	-	123,759	123,759
57	Feasibility Study: Rural Coastal Fish. Dev. Prog.....	150,000	(3,951)	-	136,049	136,049
58	Gazelle rest. Auth. MT Rest. Progr.....	235,473	-	-	235,473	88,876
60	Ex-ante Audit in prep. for EDF 8 SAP in PNG.....	60,000	(2,882)	-	35,118	35,118
61	Audit of fourth SAP.....	25,000	-	-	22,000	-
62	TA to Dep. Of Works.....	175,000	(27,327)	-	147,673	147,673
Subtotal National Indicative Programme		45,792,629	196,324	(584,574)	45,052,534	42,794,147
B. STABEX						
4	Produits Cacao.....	6,754,994	-	-	6,754,994	6,754,994
5	Café.....	7,563,555	-	-	7,563,555	7,563,555
6	Produits Copra.....	3,322,667	-	-	3,322,667	3,322,667
7	Produits Palmier.....	7,307,497	-	-	7,307,497	7,307,497
10	Stabex 1991 (prod. Cacao).....	7,074,839	-	-	7,074,839	7,074,839
11	Stabex 1991 (coffee).....	8,695,117	-	-	8,695,117	8,695,117
12	Stabex 1991 (Copra).....	1,454,975	-	-	1,454,975	1,454,975
27	Transfert Stabex 92 prod. Cacao.....	4,675,359	-	-	4,675,359	4,675,359
28	Transfert Stabex 92 Café.....	12,736,150	-	-	12,736,150	12,736,150
36	Stabex transfert 1993 (Cocoa Products).....	4,512,511	-	-	4,512,511	4,512,511
37	Stabex transfert 1993 (Coffee).....	8,200,129	-	-	8,200,129	8,200,129
42	1994 Stabex Transfert (Cocoa Products).....	7,271,542	1,113,108	1,068,140	9,152,135	(6,242,500)
48	Reversement excédent 1er prot. fin. Lome IV.....	5,234,219	576,375	514,017	576,375	608,238
Subtotal STABEX		84,803,554	1,689,483	1,582,157	82,026,303	66,663,531
C. Other EDF funding						
2	2 structural Adjustment Programme.....	7,000,000	-	-	7,000,000	7,000,000
14	Third Adjustment Support Programme.....	10,200,000	-	-	10,200,000	10,200,000
16	Bank of PNG private sect.....	330,000	-	-	330,000	330,000
19	Trade Promotion Programme.....	3,933	-	-	3,933	3,933
20	Roads Bridges Rehab. Progr.....	1,042,665	-	-	309,008	309,008
21	Roads Bridges Rehab. Progr.....	2,395,105	-	-	2,214,659	2,214,659
29	Ramu Highway Upgrading.....	389,722	-	-	389,722	389,722
30	Ramu Highway Upgrading.....	560,578	-	-	560,578	560,578
32	Elcom Power Transmission.....	495,652	-	-	495,652	495,652
35	ECHO.....	113,184	-	-	113,184	113,184
39	Bank of PNG.....	34,562	-	-	34,562	34,562
43	Lihir Gold Mine.....	4,439,498	-	-	4,439,498	4,439,498
44	Lihir Gold Mine.....	21,000,000	-	-	21,000,000	21,000,000
45	4th Structural Adjustment Programme.....	3,300,000	-	-	3,300,000	3,300,000
53	Formation 1981-1985 FED 5.....	(3,190)	-	-	(3,190)	(3,190)
59	Gazelle Rest. Auth. MT Restoration Progr.....	3,212	-	-	3,212	-
Subtotal Other EDF Funding		51,304,921	-	-	50,390,818	50,387,606

Annex 8 Financial situation 6th EDF
6th EDF

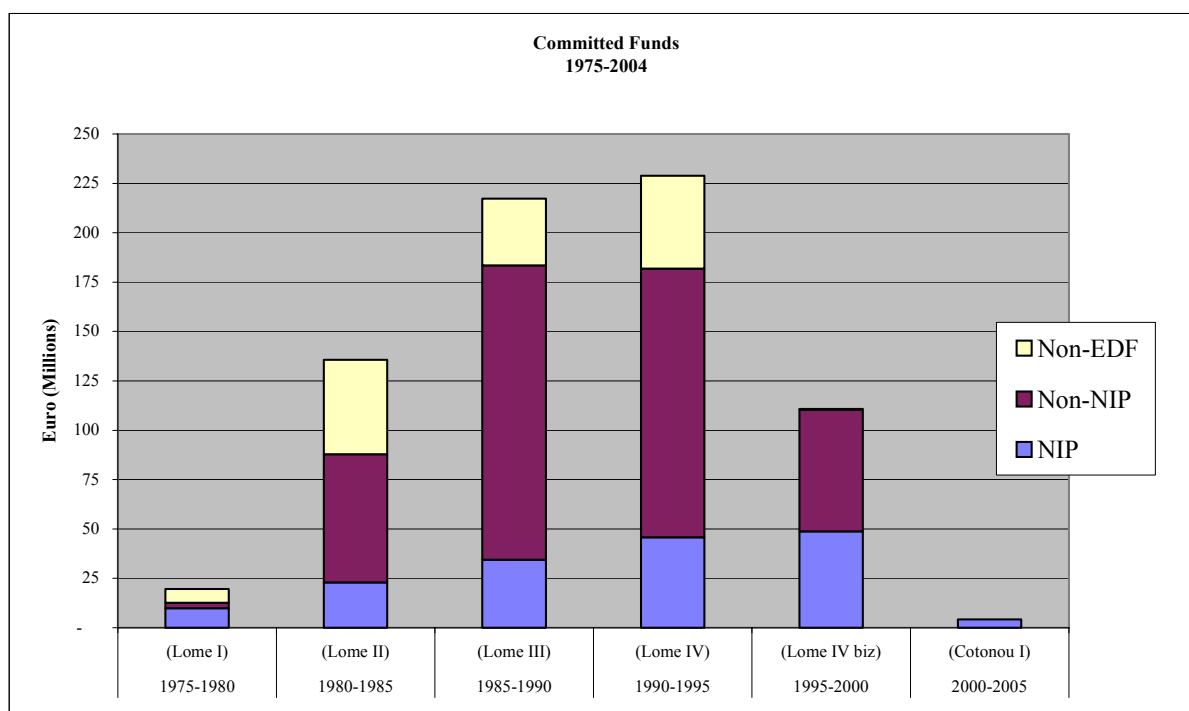
No.	Project Title	Global Commitment (Euro)	MOVEMENT 2004		STATUS 2004	
			Commitments (Euro)	Payments (Euro)	Commitments (Euro)	Payments (Euro)
A. National Indicative Programme						
1	TA Rural Road Magi Highway.....	5,891	-	-	5,891	5,891
3	Rural Roads Hiritano Highway.....	19,638	-	-	19,638	19,638
4	TA Foreign Aid Manag Lome3.....	400,474	-	-	400,474	400,474
9	Microprojects.....	2,999,851	-	-	2,999,851	2,999,851
10	ST Minor Crops production study.....	83,355	-	-	83,355	83,355
11	TA Dep. Agric. & Liv.....	293,266	-	-	293,266	293,266
14	Route Vallaia a Rigo.....	3,856,655	-	-	3,856,655	3,856,655
15	Vallaia-Rigo Road.....	1,622,812	-	-	1,622,812	1,622,812
16	Brown River Veimauri Road.....	3,300,000	-	-	3,300,000	3,300,000
17	Brown River Veimauri Road.....	6,596,438	-	-	6,596,438	6,596,438
19	Tinpis Pty Ltd.....	103,012	-	-	103,012	103,012
21	TA to Livestock Dev Corporat.....	175,209	-	-	175,209	175,209
22	TA Dep. Works.....	362,447	-	-	362,447	362,447
23	Audit of project & contract.....	42,200	-	-	42,200	42,200
24	Microprojects.....	3,263,000	-	-	3,263,000	3,263,000
25	Training Programme.....	1,607,727	-	-	1,607,727	1,607,727
29	Sing Sing Tumbuan Video Produc.....	58,412	-	-	58,412	58,412
30	Rattan develop Study Forestry.....	58,467	-	-	58,467	58,467
31	Fin incent small med business.....	39,223	-	-	39,223	39,223
32	Road Improv and Maintenance.....	30,355	-	-	30,355	30,355
36	Sectoral Import Programme.....	5,500,000	-	-	5,500,000	5,500,000
37	TA Monitor SIP Lome 3.....	50,150	-	-	50,150	50,150
39	PI-TA Superv Lome4 Microproj.....	71,312	-	-	71,312	71,312
44	Ramu HighWay Upgrading.....	3,049,700	-	-	3,049,700	3,049,700
45	Gazelle Restoration.....	910,405	-	-	910,405	697,228
Subtotal National Indicative Programme		34,499,999	-	-	34,499,999	34,286,822
B. STABEX						
5	Stabex Palm Products.....	21,764,451	-	-	21,764,451	21,764,451
6	Stabex Coconut Oil.....	17,067,636	-	-	17,067,636	17,067,636
7	Stabex Copra.....	7,569,597	-	-	7,569,597	7,569,597
12	Stabex Copra Products.....	14,049,670	-	-	14,049,670	14,049,670
18	Stabex Palm Products.....	24,036,061	-	-	24,036,061	24,036,061
26	Stabex Cocoa Beans.....	2,582,383	-	-	2,582,383	2,582,383
27	Stabex Palm Products Group.....	10,716,344	-	-	10,716,344	10,716,344
28	Stabex Copra Products Group.....	6,147,829	-	-	6,147,829	6,147,829
33	Stabex Coffee.....	1,337,001	-	-	1,337,001	1,337,001
34	Stabex Cocoa Beans.....	4,224,193	-	-	4,224,193	4,224,193
35	Stabex Palm Product Group.....	510,383	-	-	510,383	510,383
Subtotal STABEX		110,005,548	-	-	110,005,548	110,005,548
C. SYSMIN						
38	Roads & Bridges Rehabilitation Programme.....	18,000,000	(671,883)	-	13,444,858	13,444,858
43	Ramu HighWay Upgrading.....	12,000,000	-	-	12,000,000	12,000,000
Subtotal SYSMIN		30,000,000	(671,883)	-	25,444,858	25,444,858
D. Other EDF funding						
2	Yonki Hydro-elect. Project.....	2,500,597	-	-	2,500,597	2,500,597
8	Risk Cap Poliamba OilPalm (BEI:70739).....	3,500,000	-	-	3,500,000	3,500,000
13	Proj Poliamba Tree Crops.....	1,747,549	-	-	1,747,549	1,747,549
20	Trian Jaya Resettlem Refugees.....	579,857	-	-	579,857	579,857
40	4E 6E TA Superv Lome Micro.....	133,883	-	-	133,883	133,883
41	BK PNG Prêt global.....	-	-	-	-	-
42	Global Loan a Bank of PNG.....	346,755	-	-	346,755	346,755
46	Gazelle Restor. Authority MT restor. Progr.....	94,805	-	-	94,805	72,606
Subtotal Other EDF Funding		8,903,446	-	-	8,903,446	8,881,247
GRAND TOTAL 6TH EDF		183,408,993	(671,883)	-	178,853,851	178,618,475

Annex 9 Overall financial overview

Annex 9: Overall Financial Overview - Committed funds (Euro Millions)

A Available Funds

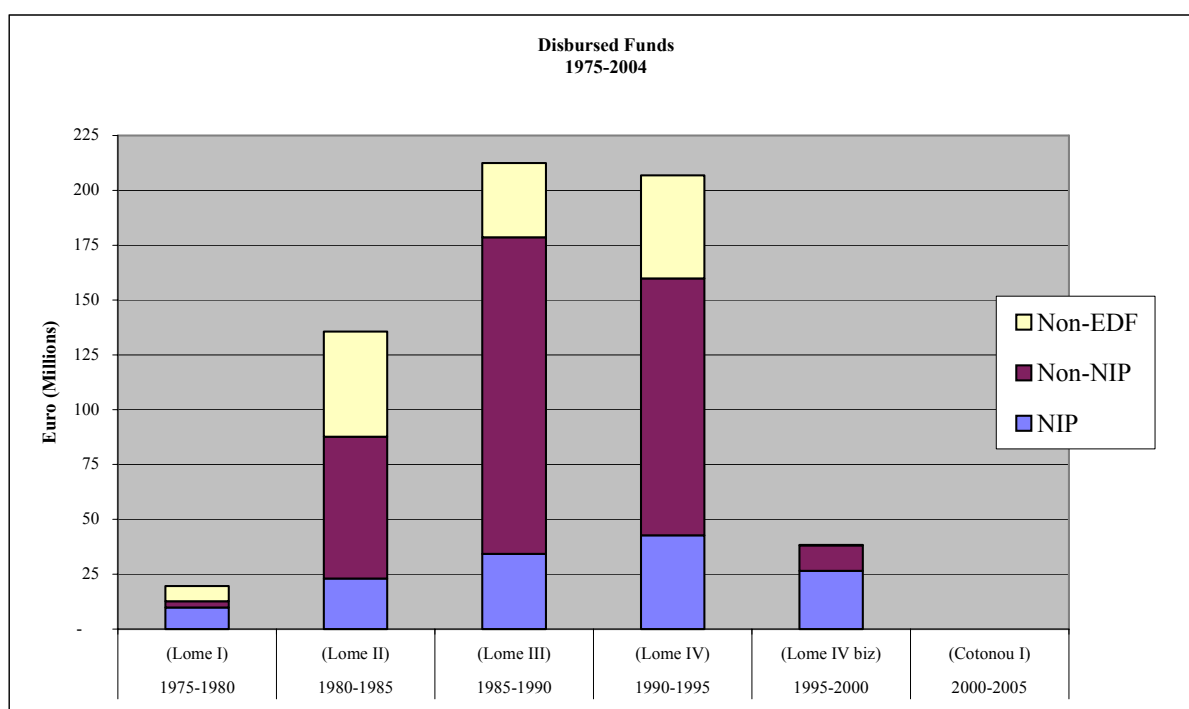
	1975-1980 (Lome I)	1980-1985 (Lome II)	1985-1990 (Lome III)	1990-1995 (Lome IV)	1995-2001 (Lome IV biz)	2002-2007 (Cotonou I)	Total
NIP Allocation (A Envelope)	10.00	23.00	34.50	46.20	50.00	93.00	256.70
NIP Primary Commitments	9.91	23.00	34.50	45.79	48.86	4.20	166.27
Structural Adjustment outside NIP	-	-	-	20.50	10.40	-	30.90
STABEX	-	50.61	110.01	84.80	0.58	-	246.00
SYSMIN	-	-	30.00	-	50.50	-	80.50
Risk Capital & Interest Subsidies	2.72	14.15	8.33	30.69	-	-	55.89
Others	-	-	0.58	0.11	0.08	-	0.77
Total EDF	12.63	87.76	183.41	181.90	110.43	4.20	580.33
Commission Budget Lines	-	-	0.80	5.96	0.31	-	7.07
EIB Own Resources	7.00	47.90	33.00	41.00	-	-	128.90
Grand Total	19.63	135.66	217.21	228.86	110.74	4.20	716.30



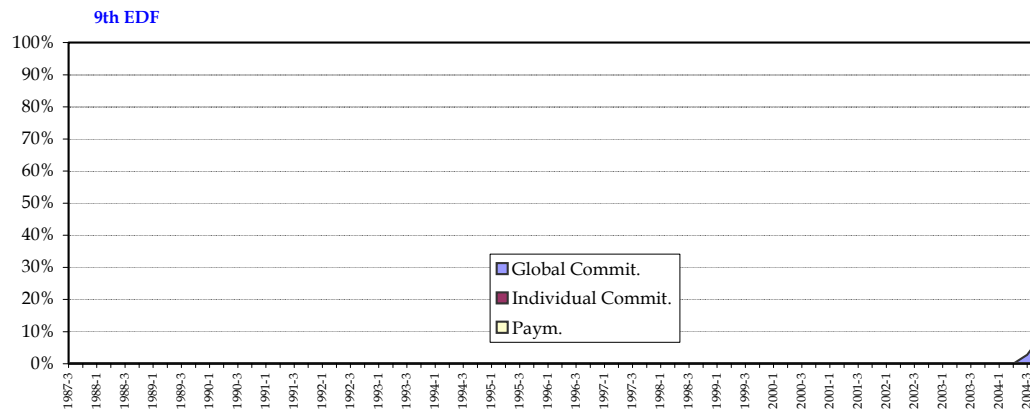
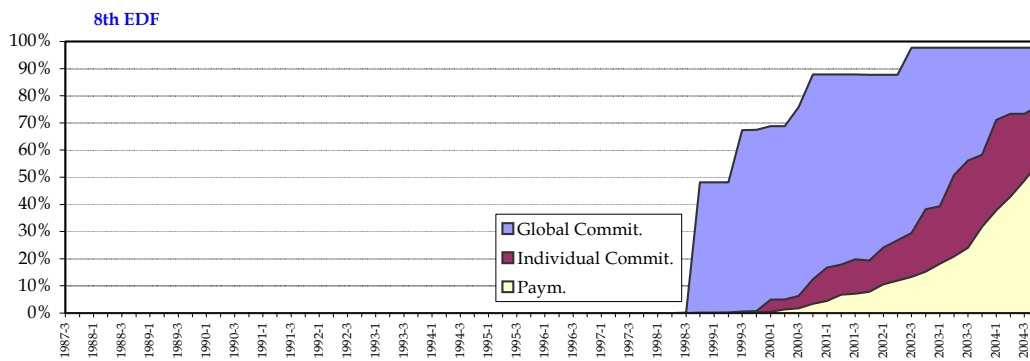
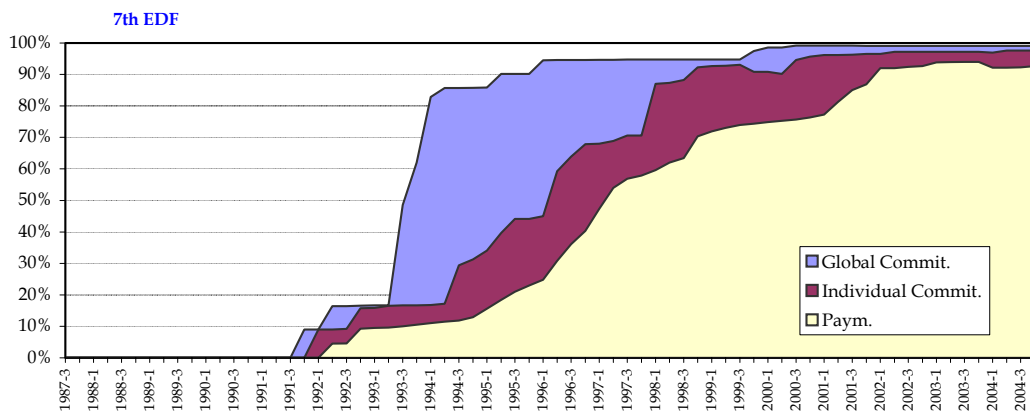
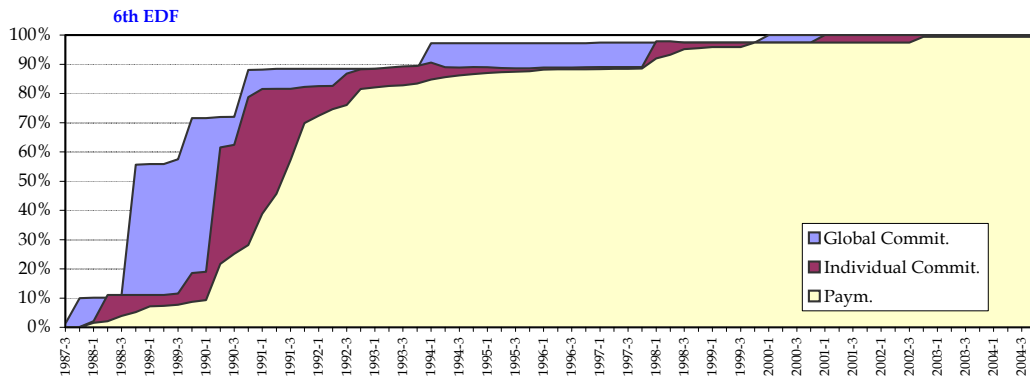
Annex 9: Overall Financial Overview - Disbursements (Euro Millions)

B Disbursed Funds

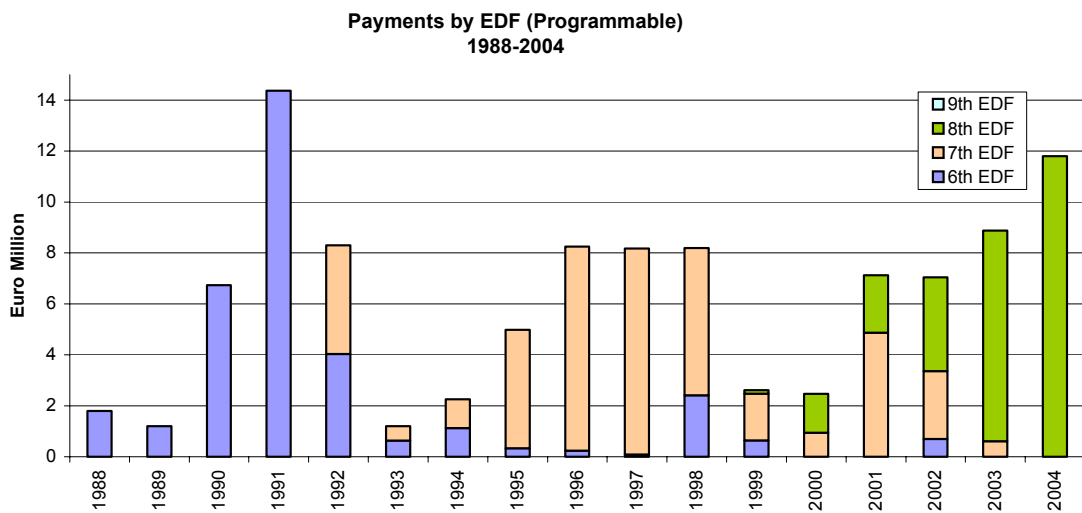
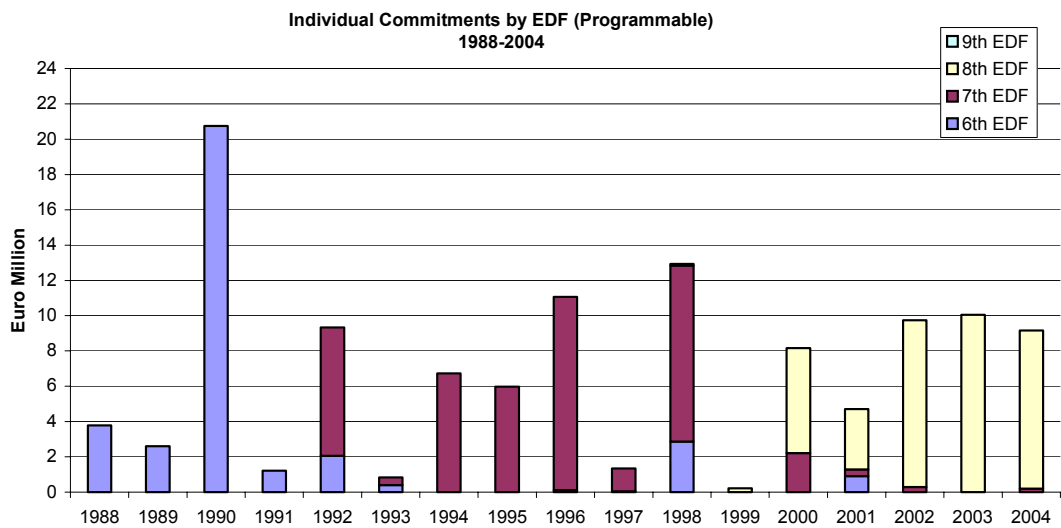
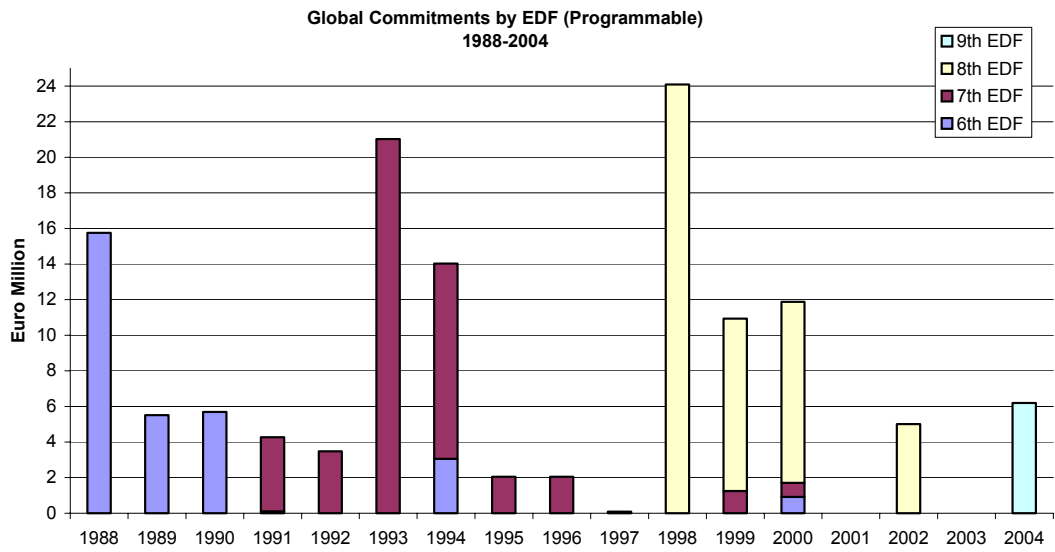
	1975-1980 (Lome I)	1980-1985 (Lome II)	1985-1990 (Lome III)	1990-1995 (Lome IV)	1995-2000 (Lome IV biz)	2000-2005 (Cotonou I)	Total
NIP	9.91	23.00	34.29	42.79	26.50	-	136.49
Structural Adjustment outside NIP	-	-	-	20.50	9.88	-	30.38
STABEX	-	50.61	110.01	66.66	0.58	-	227.86
SYSMIN	-	-	25.44	-	1.09	-	26.53
Risk Capital & Interest Subsidies	2.72	14.15	8.33	29.77	-	-	54.97
Others	-	-	0.55	0.11	0.08	-	0.75
Total EDF	12.63	87.76	178.62	159.85	38.12	-	476.98
Commission Budget Lines	-	-	0.80	5.96	0.31	-	7.07
EIB Own Resources	7.00	47.90	33.00	41.00	-	-	128.90
Grand Total	19.63	135.66	212.42	206.81	38.43	-	612.95



Annex 10 Financial overview of NIP Projects

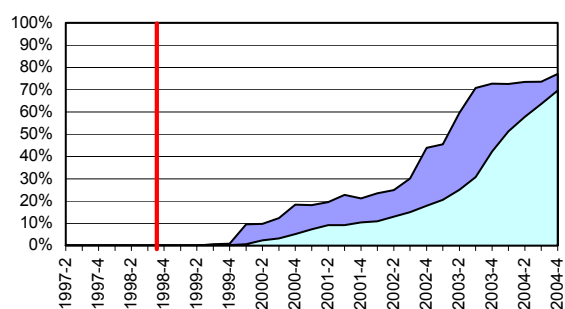


Annex 11 Evolution of commitment and disbursements by EDF (programmable envelope)

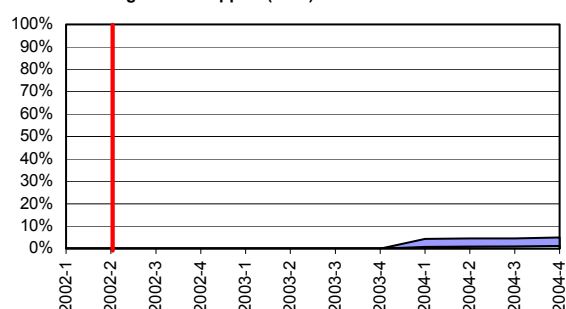


Annex 12 Evolution of Commitments and payments for current projects

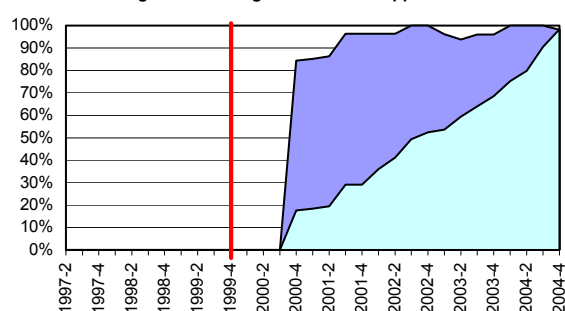
6087/PNG - HRDP II



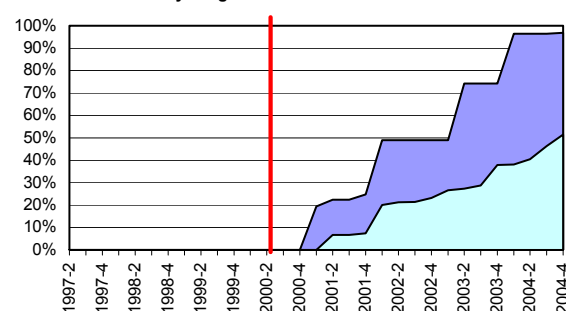
6538/PNG - Mining Sector Support (MSS)



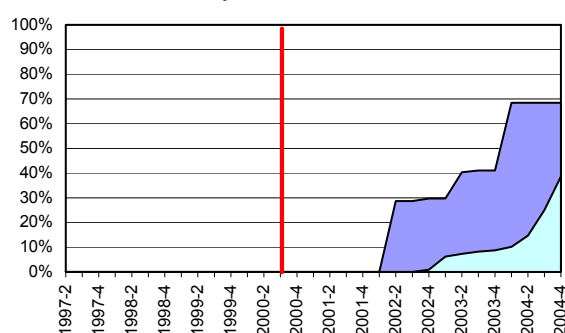
6170/PNG - EU Programme management Unit in support of the NAO



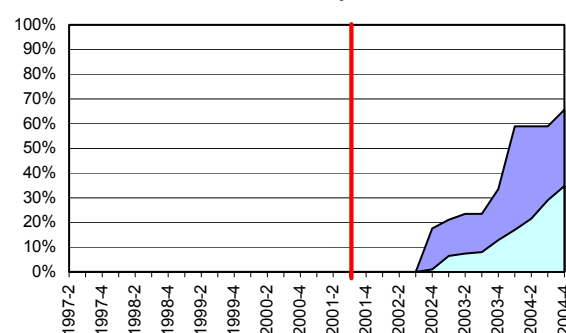
6205/PNG - Eco-Forestry Programme



6346/PNG - Sexual Health Project



6387/PNG - Rural Coastal Fisheries Dev. Project - PIS



Commitments (cumulative, in % of total allocation)
 Payments (cumulative, in % of total allocation)
 Date of signature of Financing Agreement

Annex 13 Financial Situation of Stabex Funds (million €)

	Total amount	Total transferred (end 2004)	Disbursements in 2004
FMO 92/94	93.0	92.7	1.0
FMO Bougainville	6.45	3.3	0.4
FMO 99	0.64	-	-

Annex 14: Country Environmental Profile

No CEP has specifically been made for this Joint Annual Report. Reference is made to Papua New Guinea – Environmental Monitor, World Bank 2002. A summary of the key points is provided below.

Papua New Guinea – Environment, Key points from Environment Monitor, World Bank 2002

1. Introduction

Papua New Guinea has an extraordinary range of ecosystems, ranging from mountain glaciers to humid tropical forests, from swampy wetlands to pristine coral reefs. These ecosystems are relatively unspoiled, and some areas, particularly the larger areas of wetland, still have very low human population densities (two to four persons per square kilometer). However, the environment in general is coming under pressure. Terrestrial ecosystems, especially forests, are subject to increasing resource extraction and are being depleted through commercial forestry operations, or cleared to make way for mining and agriculture. Freshwater ecosystems in some parts of the country are being degraded through the disposal of mining, agricultural, and urban wastes. This degradation ultimately impacts marine systems, which are also being affected by additional pressures from fisheries and pollution.

Papua New Guinea has a total land area of 46.28 million hectares, of which about 36 million ha, or 77% of total land area, is still covered by closed natural forest. This constitutes one of the most complex, species-rich significant tropical rainforest wildernesses remaining in the world. Although this biodiversity has not been extensively surveyed, the best current scientific estimates are that 5% to 7% of the world's biodiversity is found in PNG. Terrestrial biodiversity includes 304 mammal species, 15,000-20,000 plant species, 1,500 tree species, and 733 bird species. This includes many unique species not found anywhere else on earth.

2. Environmental Institutions and Responsibilities

The key environmental institutions, which are mandated to safeguard the environment in PNG, are the Department of Environment and Conservation (DEC), National Forest Service/National Forest Authority (NFS/NFA), National Fisheries Authority (NFA) and the National Agricultural Quarantine and Inspection Authority (NAQIA), which operates under the Department of Agriculture and Livestock (DAL).

DEC reports directly to the Environment and Conservation Minister. DEC has statutory obligations to formulate policies and legislations for the National Executive Council (NEC) to enact bills in relation to environmental protection.

NFA is responsible in formulating and maintaining the National Forest Plan and the National Forest Development Plan as defined under the Forestry Act, and maintaining a monitoring and compliance program and sustainable yield management.

NGOs, specifically environmental NGOs, in Papua New Guinea play an important role in developing community-based conservation programs so that local landowners realize their right to a safe and clean environment. The NGOs monitor compliance with PNG's environmental regulations of resource developers in the processing facilities, agricultural industries, fisheries, forestry, and the mining sector.

3. Surveys of Environmental Issues

Land and People:

- The biological diversity belongs to the people, and is managed under traditional land tenure systems.
- Forests provide the basis of livelihood and cultural life to the 80% of Papua New Guineans who live in rural communities.
- Food supplies from the forests and seas remain a central component of diet.
- PNG is greatly dependent on primary commodity exports.

Suitable solutions would require:

- Working with landowners to encourage continuation of traditional sense of stewardship.
- Establishing strong partnerships among the key stakeholders, including landowners, government, NGOs, the private sector, etc.
- Getting good data and information systems and providing realistic and useful information to all stakeholders, and getting the policy framework right.

Forests:

- High deforestation rates from 1975 to 1996, forest cover decreased 10%. Increasing with logging and conversion but not much quantified information available.
- Estimates – at current rate of logging, first-cut logging in PNG can be exhausted within 25 years.

Bio-diversity:

- Increasing number of rare insects, birds and animals are threatened and endangered.
- Growing illegal trade in wildlife; data difficult to quantify.
- Official expenditure for bio-diversity conservation has decreased 60% from 1998 to 2002.

Mines: Mining and oil provide 27% of PNG's GDP.

- River and sea pollution from dumping of mining sediments and tailings into waters has been occurring for decades.
- Loss or decline of river and oceanic fish stocks, loss of land, coral reefs, etc. resulting from disposal of toxic tailings.
- More responsible mining, understanding of impacts, better management of mitigation and benefits needed.
- Closer governmental monitoring and enforcement required.

Marines Resources: PNG's marine resources are relatively well preserved.

- Coastal and marine resources could be declining because of degradation resulting from mining and logging, and potential over-harvesting of fish, etc.
- Mangroves loss may be taking place.
- Exploitation of marine resources is not fully measure, and more data collection and monitoring are needed.

Fresh water: PNG has one of the world's highest stocks of fresh water per capita.

- Only 29% of rural population has access to improved water sources.
- Pollution of water sources is taking place from mining and unregulated effluent runoffs, or domestic contamination.
- High incidence of water-related diseases like diarrhoea.
- Improved water supply systems could probably contribute to the reduction of up to 40% of

Annex 15: Country Conflict Assessment

No country conflict assessment has been specifically prepared for this Joint Annual Report. An excerpt from a recent UN project document on Violence in Papua New Guinea is provided below.

Papua New Guinea: General Situation Analysis

Causes and Consequences of Armed Violence

Though Bougainville has for many years been the epicenter of violent conflict in Papua New Guinea (PNG), these issues are not restricted to Bougainville. Port Moresby and increasingly the Southern Highlands are facing rising levels of armed violence. Small arms proliferation is rife in these areas, and it is not uncommon for small-scale tribal disputes to result in a number of deaths. In urban areas, "pack rapes" are also reported regularly in the press as an increasingly common occurrence. In this manner, the lines between rampant crime, high levels of violence and tribal conflict are blurred with traditional understandings of organized internal armed conflict.

Available data is unlikely to present the full picture of violence in PNG, particularly in rural areas, as many violent deaths go unreported. Furthermore, what data and crime statistics that do exist, do not adequately breakdown the types and causes, making them difficult to analysis and draw conclusions. Violence and the underlying sources of violence, and possible responses, are thus poorly understood, and integrated into planning processes in PNG, making policy and programmes difficult to design and target.

In PNG the phenomenon of armed violence is derived from three main sources, or manifestations, according to Government statements. These relate to conflict, political processes and common criminality. Civil unrest and civic collapse, such as in Bougainville, and the Southern Highlands are a primary concern. Political factions, associated with kinship groups and alliances around clan warfare with political undertones, however, are another dimension of the problem. While, often inter-related with these issues, "Raskols" or criminal groups are often the worst perpetrators of crime and violence in urban and rural areas of the country.

Despite deficiencies in statistics, it appears that Port Moresby, the financial and political capital of PNG, is not affected by armed violence and weapons proliferation. In fact, half of all crimes reported in PNG allegedly occur in the capital. In major urban centres, armed violence is caused by a number of factors. These include:

- High rural urban migration resulting in the rapid development of unplanned tribal settlements with no access to social services.
- Uncontrolled rise in armed violence in the city and its surrounding settlements is due to their multi-tribal composition, extension of tribal conflicts to the communities, and increasingly easy access to weapons by the civilian population.
- In most cases, community tribal conflicts are resolved through violence involving the use of small arms and light weapons.
- High unemployment and emergence of criminal youth gangs, with virtually no informal and night-time activities.
- The youth in the settlements are the main perpetrators of armed violence.
- The perception that Port Moresby is unsafe exacerbates the situation with urban decay setting in, and some capital flight from the city.

Exacerbating this situation is the state of the security sector; inadequate police facilities, personnel and equipment are not able to respond to the activities of criminal groups in and around Port Moresby and other cities. Increasing, incidents of police brutality on criminals involved in armed violence, and links between crime and the police themselves, have also created a negative perception of the police by the civilian population, reducing cooperation even further. Community policing has been established and is supported by some donors to try to address the gap in community relations and increase collaboration to combat crime, and to improve these broadly negative perceptions of the police in PNG, but results have not yet showed any significant progress in curtailing present trends.

Armed violence besides leaving behind its increasing toll of direct victims, adversely affects the delivery and sale of products at markets, working hours for businesses, and a whole range of socio-economic activities in PNG. The overall security issue is thus a clear priority for development agencies, and the private sector investor, though to date efforts have been made to circumnavigate the issue. While accepting that crime is often a reflection of poverty and youth disillusionment, there is a wide consensus in PNG that violence reduction needs to be proactively tackled at the community level, through targeted approaches, in parallel to longer-term governance and other economic issues being addressed, with a view to further reducing the prevalence of violence in society.

Of particular concern to government authorities is the situation in the Southern Highlands, the only province in which the last elections were aborted due to armed violence and a significant inequity in the sharing of the benefits from the mining and oil operations, amongst other factors. A number of partners in both the Government and the international community consider the Southern Highlands and other areas to be a potential conflict scenario that would equal if not exceed Bougainville in scale. Regional dimensions can also be discerned, for example, the Western borders have also been affected by flows of weapons and violence emanating from West Papua.

Estimated deaths resulting from tribal violence in the highlands is about 200 per year, while injuries can only be guessed at, a ratio of 5 – or more – to 1 (injury to deaths) is not uncommon. Though such conflicts have often appeared sporadically for years, what has changed is the increasing use of automatic style assault rifles designed to provide superior firepower to one group over another. A consequence of increased tribal fighting has been the serious affect it has had on access to basic services such as health care. WHO, for example, has been unable to send an assessment team to the Highlands to assess measles immunization needs.

Bougainville: Situation Analysis

In 1989, violent conflict erupted in the islands of Bougainville and Buka, which form the North Solomons province in Papua New Guinea. More than half of all the islanders were affected by the conflict, and the havoc that was wreaked on the population over nine years of war. Many lives, essential services and productive assets were destroyed in the process. Peace was secured through a series of agreements that were to lead to an end in the hostilities. On August 31, 2001, representatives of the warring factions from the Bougainville Revolutionary Army (BRA), Bougainville Resistance Force (BRF), and the Papua New Guinea Government signed the Bougainville Peace Agreement.

There is a renewed sense of urgency with 2003 having been a critical year for Bougainville, for the following reasons:

1. The Peace Monitoring Group (PMG), which monitored and supported the peace process in Bougainville, departed in June 2003;
2. The expiry of the United Nations Political Office in Bougainville (UNPOB) mandate by the end of 2003 (with arms certification announced in July);
3. The expiry of the UNDP BRRDP project (first phase) and the continuation of selected BRRDP activities under the intermediate phase through September 2004;
4. The commitment by the Government to holding elections following certification on weapons disposal by UNPOB (the elections are now tentatively planned for the last half of 2004, subject to possible adjustment);
5. The Security Council decision to continue a limited scale presence on the island through June 2004 in the form of the UN Observer Mission in Bougainville (UNOMB).

While the peace process is relatively mature and enjoys widespread support, some challenges may arise, including heightened rates of violence and criminality, an outflow of weapons, and area specific conflict's resulting from incomplete local reconciliation processes, and destroyed customary conflict resolution practices. Furthermore, the consequences of any abrupt termination or shift in services by the international community could in a very short time become highly untenable and could destroy the gains already made in the political, social, and economic spheres in Bougainville. The current situation in Bougainville thus remains fragile.

According to the final UNPOB Verification and Certification Report (July 24, 2003), the results of the Weapons Disposal Process itself are mitigated by the legacy of mistrust and suspicion in Bougainville, the uncertainty with regards to the intentions of Frances Ona in the No-Go Zone, and the expectation that some criminal elements will continue to hold weapons after the completion of the process. While many have expressed the hope that the new policing arrangements now being set up will be able to enforce the peace, most expect these issues to continue to require attention and support over a longer period. In fact, the UNPOB has promoted not only continued efforts to strengthen weapons containment, but also the continuation of collection, and reconciliation where required.

It is imperative that the international community continues to keep the momentum moving forward in this process. The Government has consequently urged that the UN presence be continued, and that the weapons disposal process be completed as quickly as possible so that progress may be made on autonomy and that the local government be empowered as quickly as possible through local capacity building community development programmes. Development agencies thus need to contribute to local empowerment and work to support communities and local groups attempting to address the deeply felt legacy of the conflict, alongside the reshaping of political structures, to consolidate peace-building and lasting reconciliation.

Annex 16: Migration profile

Migration is not seen as a priority issue in Papua New Guinea and little statistics is available on the subject.

MIGRATION PROFILE: PAPUA NEW GUINEA

Box 1: Immigrants

Total number of residents:

Of which:	Own nationals	:	5 million (2002 census)
	Immigrants	:	N/A

- Includes expatriates of temporary residence status

Status immigrants

Refugees	:	None
Labour migrants/permanent	:	N/A
Labour migrants/seasonal	:	N/A
p.m. internally displaced persons	:	None

Immigration trend:

Number of arriving immigrants in 90/95	:	Insignificant
Number of arriving immigrants in 95/2000	:	Insignificant

Education: skilled labour n.a.

Main countries of origin: Australia, New Zealand, EU (expatriates)

Rate of return: n.a.

Finance

Amount of outgoing migrant remittance	:	n.a.
Remittances as % of GDP	:	n.a.

Box 2: Emigrants

Total number of emigrants: n.a.

Status emigrants

Refugees	:	None
Labour migrants/permanent	:	N/A
Labour migrants/seasonal	:	N/A

Legal situation emigrants

Documented	:	n.a.
Undocumented	:	n.a.

Trend:

Number of leaving migrants in 90/95	:	n.a.
Number of leaving migrants in 95/2000	:	n.a.

Education: skilled labour : n.a.

Main countries of destination : Australia

Rate of return : n.a.

Finance:

Amount of incoming migrant remittances	:	n.a.
Remittances as % of GDP	:	N/A