



Framework

Australia's Aid Program to Papua New Guinea

21 October 2002

Our Unique Development Partnership

our close bilateral ties are reflected in our aid program

Enduring ties bind Papua New Guinea with Australia. Our two nations are separated at their closest points by just a few kilometers, and this geographical proximity helps to cement our strong bilateral relationship. We share membership of key regional bodies, including APEC and the Pacific Forum. Moreover, since PNG achieved its independence in 1975, we have shared a substantial and constructive partnership articulated in the Development Cooperation Treaty between our two countries. It is Australia's desire that the aid program contributes to building a strong and stable nation state in Papua New Guinea.

A New Phase in the Relationship

a changing partnership to reflect changed expectations

The Australian aid partnership with PNG is entering a critical new phase. This reflects the changes that have taken place in the development outlook for PNG. In the early 1990s this was optimistic, with major new mining and petroleum projects expected to generate significant investments in social and economic infrastructure. It was in this positive environment that Australia initiated the fundamental shift from budget support to program aid, a move also designed to increase our accountability to the Australian taxpayer for aid expenditure in PNG.

a shift in approach

Today, however, such promise has all but evaporated. There has been a sustained decline in investment in the minerals sector, government spending has been out of control and there is uncertainty over the political process. The most dramatic decline has been in the quality of governance. This has had a negative effect on the quality of PNG Government spending, and particularly on the standard of basic services. The poor, and in particular the rural poor, have suffered.

The fundamental weakness of governance in PNG undermines investments by government, the private sector and donors, which threatens both prosperity and stability. Finding ways of strengthening governance is, therefore, an essential step for the Australian program.

This paper sets out to provide a framework for the next phase of assistance to PNG that meets the issue of poor governance head on. In doing so, it embraces the core themes of the 2002 Ministerial Statement, *Australian Aid: Investing in Growth, Stability and Prosperity* and the direction set by the AusAID's Strategic Plan.

The Challenge

a lost decade of development

PNG is facing unprecedented development challenges. Today, the country has slipped to 133rd out of 173 countries in the UNDP's composite Human Development Index. The economy is in deep recession with no prospects for growth in the short term, there is a high risk of macroeconomic instability, national income per capita has halved in five years and the number of people in poverty (i.e. on less than US\$1 per day) has doubled. Those bearing the brunt of the government's poor performance are the poor, and particularly the rural poor, who have seen the quality of their health, education and infrastructure services

decline year after year. Poor rural conditions are feeding a drift towards urban centers, where poverty is growing at a rapid rate. All this comes against a backdrop of high population growth (2.7 percent) and an alarming growth in the incidence of HIV/AIDS.

PNG also faces an awkward structural transition in its economy. For most of the 1990s, growth was sourced from the booming minerals sector. These projects are now drawing to a close and there has been little replacement investment. So growth must increasingly be sourced from other areas, and particularly the rural sector. This will be a major challenge as PNG has allowed its non-minerals sector to wither, particularly its transport infrastructure and agricultural services.

No quick fixes

improving
governance will
take time

There are no quick fixes to the problems now facing PNG. At their source is a persistent decline in the quality of governance and this is reflected in the serious breakdown in fiscal discipline and the disastrous outcome of the 2002 budget. Poor governance is systemic in the PNG system; turning this around will take a long time.

the importance
of stability

Similarly, there are no simple solutions to the high levels of instability affecting the country. Peace has been restored in Bougainville but this took many years to achieve and will take considerable application to sustain. The continued violence in the Southern Highlands indicates that further challenges lie ahead.

limited scope
for donors

The scope for AusAID and our partner donors to expedite reform and bring forward a resolution to PNG's problems is limited. Over the past decade it has become increasingly clear that sustainable, broad-based development cannot occur in an environment of poor governance. This is demonstrated by persistent poor performance in countries such as Kenya and Cambodia, which continue to disappoint despite substantial support from the donor community.

Some encouraging developments have taken place since the 2002 national election which suggest that genuine reform can take place. AusAID has worked closely with the Government of PNG in identifying options to reduce the deficit, and has assisted in the development of a new Medium-Term Development Strategy (MTDS). The spirit of this collaboration has informed the preparation of this framework paper, and many of the themes of the new MTDS are also reflected.

A new approach for the Australian program

Changing PNG's culture of poor governance demands consistent, long-term, high-level engagement with local stakeholders, and in particular with the government itself. This requires a greater focus on policies and better links with policy making processes, systems of resource allocation and service delivery agencies. It also means working more effectively with PNG's other development partners to enhance the consistency and coherence of the reform advice we give.

A stable goal
but a shift in
focus

As we shift the focus of our aid partnership, our overarching goal for PNG will remain unchanged – to assist in building a stable and prosperous nation and thereby to reduce the incidence and severity of poverty across the country. But we will strengthen our focus on the threats to PNG's long term development.

Our experience over the past few years demonstrates that nothing is more certain to undermine our goal than persistent poor governance, low rates of growth, and high and increasing levels of conflict and social instability. These, then, will be the primary focus of our work.

better
governance

Our first objective will be to enhance the quality of governance in PNG, and particularly the policy and legislative environment at national levels. Declining standards of governance in PNG lie behind many of the reversals which have taken place in the country's economic prospects. The new program will work with governments at all levels, and with those parts of civil society which can influence the capacity and willingness of the Government to change. Our approach will be characterized by strong and constructive links with PNG stakeholders.

more
sustainable
growth

Our second objective will be to encourage broad-based, sustainable growth, particularly in the rural areas of the country. With 90 per cent of the population living in these areas, this means focusing on the conditions which will lead to the improvement of rural incomes, particularly in the informal sector. In addition to support for priority economic infrastructure, we will focus on issues of access to basic services and markets, and the quality of policy, planning and implementation processes.

reducing
conflict and
social instability

Our final objective will be to address the underlying causes of conflict and social instability. This we will approach by, amongst other things, supporting agencies working in the law and justice sector and strengthening the delivery of efficient and effective basic services, particularly to rural people. This will have an impact on the quality and pace of growth and on enhancing the perceived legitimacy of government in PNG.

synergies
between these
objectives

These areas of focus, of course, have strong mutual links. For example, growth will be neither sustainable nor evenly distributed without sound government social policies. Growth will not even take place without better services in education, health and infrastructure. And social instability will persist unless economic governance strengthens in such a way as to encourage private sector investment and employment opportunities. The strength of the new program will be to acknowledge and build on these linkages and synergies.

The Principles which will Guide the Program

We will apply a set of principles to all our work. These principles, which are based on the experience we have gained from working in PNG and other countries over many years, will guide all that we do.

- The Program will contribute to strengthening the coherence and effectiveness of overall Australian Government effort to promote a stable, prosperous PNG.
- The fundamental need to enhance governance in PNG will be reflected in all aspects of our work, across every sector.
- Incentives to encourage better performance from government and non-government sectors will be built into the program

- The Program will be informed by high quality policy and performance analysis to ensure available resources are used efficiently and effectively to maximise and measure impact.
- Assistance to the PNG Government will be provided, as far as possible, within PNG government policy, planning and implementation processes, rather than developing parallel structures. There will be a reduced reliance on stand alone projects.
- Australian support, particularly for social services, will be determined by what is affordable in the medium term for PNG.
- The program will strengthen the ability of the informal sector to contribute to broad-based economic growth in PNG.
- In partnership with the PNG Government, the program will identify new and more effective ways of working with civil society, particularly to deliver essential services.
- The program will strengthen collaboration with PNG's development partners through joint analytical work and more harmonised country strategies.

How We Will Work To Bring About Better Outcomes

As they are applied, these principles will produce significant on-the-ground changes in the way the aid partnership works.

stronger engagement with government

In strengthening our focus on the quality of governance in PNG, the program will be characterised by more discerning and systematic engagement with government. The new program will see a much greater emphasis on the core role and performance of government, particularly a stronger focus on the quality of public expenditure management.

adding value to locally owned processes

Our experience shows that the impact of our support is greatly enhanced when our resources are spent in adding value to effective, locally owned processes. We will, therefore, aim to work closely with the Government of PNG where it does take the lead in directing an appropriate reform agenda. Where poor government performance persists, or where government systems are weak, we will look elsewhere to find ways to deliver humanitarian aid services.

incentives for better performance

In line with PNG's work on public expenditure, we will ensure the program provides incentives to encourage better performance. We are working with the World Bank and the Asian Development Bank to develop performance-based "compacts" between donors and the Government of PNG, at central agency, line agency and provincial level, which will reward performance against selected objectives. Increased contestability will be influenced by enhanced analytical work around policy settings, government performance and commitment to reform, increased opportunities for non-government actors, and increasing the range of aid delivery options.

greater focus on law and justice

Law and justice problems continue to hamper PNG's development efforts. Strengthening the rule of law is essential to improve the environment for investment, protecting human rights and increasing stability. Attention is needed

support to services delivery that yield grass roots outcomes

to the opportunities offered by restorative justice approaches, to the inter-dependence of the formal sector agencies, and to the linkages between this sector and broader efforts to improve governance and accountability.

working with elements of society that can deliver services and hold PNG officials to account

We already work closely on strengthening government capacity in the areas of health, education and roads and we are directly funding essential service delivery, such as the procurement of pharmaceuticals. In order to contribute more directly to stability and alleviating the risk of a broadening of the poverty base, we will continue this approach. We will ensure that this support is provided with reference to the likely availability of resources in the medium term so that unsustainable service structures and expectations are not introduced.

more work with the informal sector

The new program will also exhibit a more systematic level of engagement with elements based outside government circles. Important as it is to work at the national and provincial level to ensure that policies are appropriate and supportive, it is also necessary to work, in effect, from the bottom up. Non-government organizations and other locally-based groups are often at the sharp end of service delivery. At the same time, they can have a critical role to play in managing conflict, generating and maintaining social cohesion and in holding national and provincial governments accountable. The media, in particular, has an important role to play in supporting democratic processes and encouraging transparency in government.

strengthened donor coordination

A further dimension of the new program will be a greater focus on the informal sector. The informal sector accounts for 80% of PNG's economy. Only 5% of school leavers gain employment in the formal sector. As formal employment continues to struggle to generate opportunities for the fast expanding workforce, it is clear that new ways must be found to provide incomes and jobs. Donors have often neglected the informal sector. In particular, efforts will need to be made to assess how policies can assist the sector's enabling environment.

We will not abandon effective interventions from the previous program

A more strategic and coherent approach by PNG's development partners is required if aid is to contribute more effectively to sustainable growth and stability. The extent of the challenge in PNG calls for a different approach from donors. In particular, we are pursuing the development of a joint PNG country strategy with the World Bank and the Asian Development Bank to improve coordination and impact.

What Won't Change

A realignment of the aid program is necessary if we are to meet our goal of reducing poverty. This does not mean everything will change. Indeed, many existing aspects of the program will continue to be relevant in the new program.

We will, therefore, retain many of the highly effective and important elements of the program that have served PNG well during the past decade. In particular, we will ensure that our commitment to address the growth in incidence of HIV/AIDS is maintained. We will also remain a key player in the peace process on Bougainville as an element of our efforts to promote stability.

To Conclude

This framework presents the case for the next phase in the development cooperation partnership between Australia and PNG. PNG is facing fundamental challenges that will require a significant improvement in government performance and a reshaping of the Australian aid program. Much will need to change for PNG's development challenges to be met effectively, particularly the government's approach to governance. Donors can do little to assist in the face of persistent poor governance. The most effective way for us to help is therefore to enhance our engagement with local policy makers and implementers. The Australian program will ensure that these links are stronger, more direct and more coherent. Such moves will, however, take several years to bear fruit.

Even with stronger policies the numbers of people living in poverty is likely to increase in the short term, especially in rural areas. There is, therefore, a strong case to focus also on these basic services that have been deteriorating for the past decade or more. As well as being important in their own right as a means of reducing poverty and promoting stability, such services are an investment in the long-term productivity and welfare of the poor. This approach will include a greater focus on the delivery of services by non-government agents.

This, in essence, is the vision for the reshaped program: enhanced and more direct engagement with government designed to strengthen the quality of governance, with an increased emphasis on broad-based economic growth and the issues of conflict and stability, and the requisite incentives to encourage progress. This will be undertaken in close cooperation with our partner donors and with other key stakeholders. The framework represents an evolution in thinking, building on the lessons of the past to establish a program, which over time and with the sustained commitment of the Government of PNG and other donors, will significantly reduce the number of people living in poverty.