



Australian Government  
AusAID



# Papua New Guinea – Australia Development Cooperation Strategy 2006–2010







Papua New Guinea – Australia  
Development Cooperation Strategy  
2006–2010

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COVER PHOTOS FROM LEFT TO RIGHT

1. *The Australian Government is working to improve governance and nation building in Papua New Guinea through promoting the rule of law by giving integrated support to PNG's Law and Justice Sector. Here, PNG's Chief Justice, Sir Mari Kapi, and the judges of the National Court march to celebrate the opening of the legal year.*

PHOTO: Joe Kanekane

2. *A road maintenance project along the Kokopo–Rabaul road will see key economic transport infrastructure improved. Increased road access will also help improve business and trade in the area, which is essential to economic growth.* PHOTO: AusAID

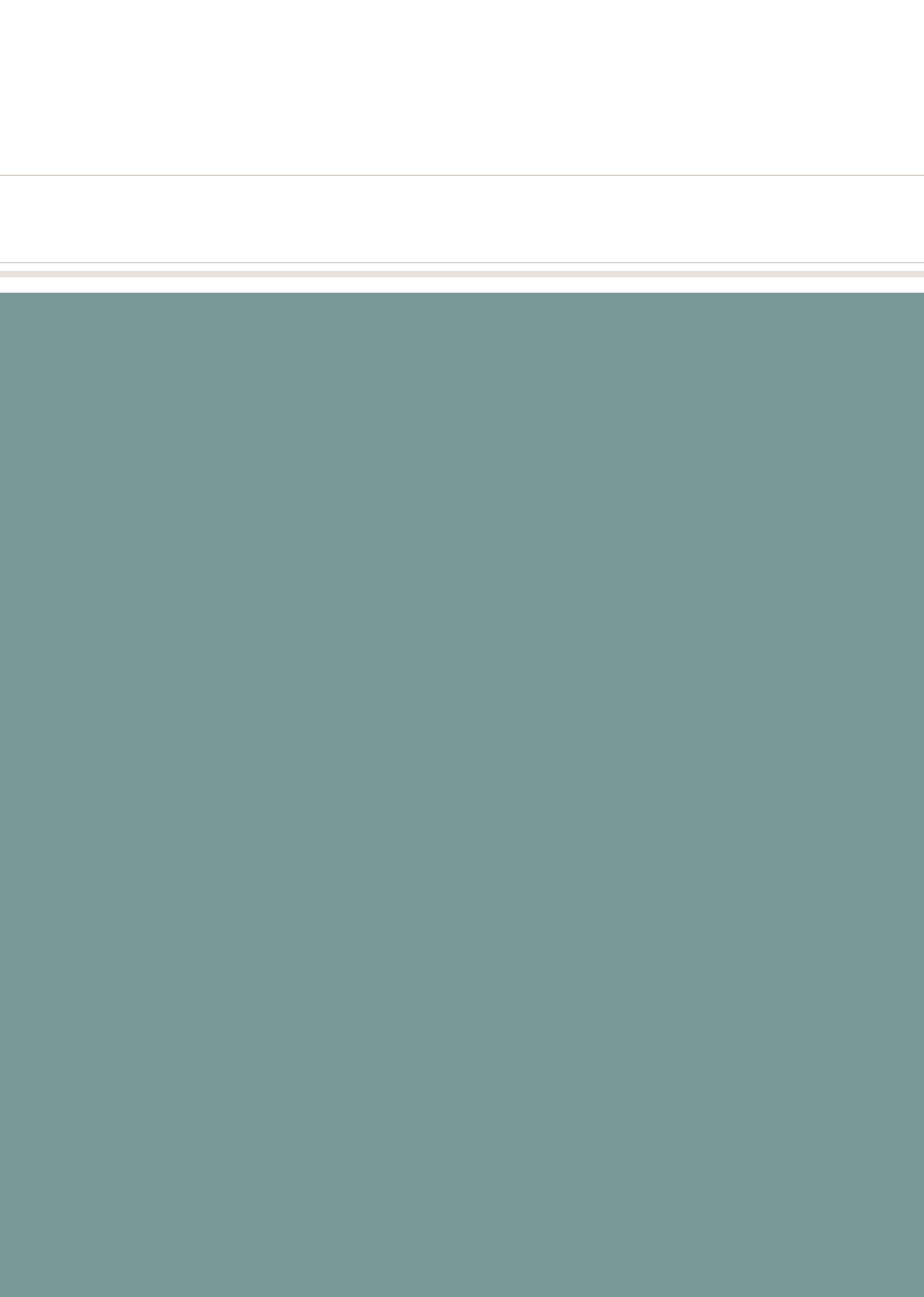
3. *AusAID is working with national agencies and other stakeholders to improve educational outcomes for students through the implementation of the National Education Plan. Essential textbooks and materials are provided by AusAID to thousands of schools in Papua New Guinea including Tararan Primary School in Morobe Province.* PHOTO: AusAID (also reproduced opposite)

4. *The Anglicare STOPAIDS theatre group is just one of many non-government organisations across Papua New Guinea staging plays at local markets, schools, and other community meeting places to help inform and educate people about HIV/AIDS. A performance at Morata settlement in Port Moresby attracted a good audience.*

PHOTO: Rocky Roe



ABOVE: Students from Tararan Primary School in Morobe Province learn skills that will help them lead the way to economic growth and stability into the future. Essential textbooks and materials are provided to many schools within Papua New Guinea through the aid program. PHOTO: AusAID



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ABOVE: A mother and child in Aipokon, Sandaun Province, enjoy clean, safe water from a well installed with funding from Australia. The Australian Government has long recognised the importance of clean water as a cornerstone for development.  
PHOTO: Peter Davis

# Abbreviations and acronyms

ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
ADRA	Adventist Development Relief Agency
CACC	Central Agencies Coordinating Committee
CIMC	Consultative Implementation and Monitoring Council
CS	Country Strategy
DCS	Development Cooperation Strategy
DNPM	Department of National Planning and Monitoring
DPM&NEC	Department of Prime Minister & National Executive Council
ECP	Enhanced Cooperation Program
GoA	Government of Australia
GoPNG	Government of Papua New Guinea
MTFS	Medium Term Fiscal Strategy
MTDS	Medium Term Development Strategy
NEC	National Executive Council
NEFC	National Economic and Fiscal Commission
PMF	performance management framework
PNGEC	Papua New Guinea Electoral Commission
PRD	Performance Review and Dialogue
PRS	Poverty Reduction Strategy
PERR	Public Expenditure Review and Rationalisation
PSRS	Public Sector Reform Strategy
STI	sexually transmitted infection
WofG	whole-of-government



# Executive summary

## OBJECTIVE

The Development Cooperation Strategy (the Strategy) will support Papua New Guinea (PNG) to reduce poverty and promote sustainable development through support for the PNG Government's efforts to implement its Medium Term Development Strategy (MTDS) and Medium Term Fiscal Strategy (MTFS), with a specific focus on four core areas:

1. Improved governance and nation building
2. Sustainable broad-based economic growth and increased productivity
3. Improved service delivery and stability
4. A strengthened, coordinated and effective response to the HIV/AIDS epidemic.

## GUIDING PRINCIPLES

The new Strategy will reflect a genuine partnership between Papua New Guinea and Australia, which is driven by PNG ownership and leadership and has a strong emphasis on sustainability and capacity building. The Strategy will respond to the key recommendations identified by the 2004 Joint Aid Review, and will be aligned with and informed by the following key policies and the principles of aid effectiveness.

## POLICY FRAMEWORKS

### Medium Term Development Strategy

The 2005–10 MTDS, as the PNG Government's overarching plan for social and economic development, will be central to the Strategy. The MTDS recognises the central responsibility of government to provide a number of core functions and basic services and, together with the MTFS, provides a framework to guide the allocation of PNG resources in both the development and recurrent budgets.

*The new Strategy  
will reflect a genuine  
partnership between  
Papua New Guinea  
and Australia*

### Key Australian policies

The Strategy reflects Australia's whole-of-government engagement in development issues in Papua New Guinea, including policy and operational alignment between the Enhanced Cooperation Program (ECP) and the broader aid program. The Strategy will also reflect other key Australian Government

priorities that link aid effectiveness with initiatives to strengthen political governance, tackle corruption, stimulate broad-based growth, and promote stability.

### AID EFFECTIVENESS

The impact and effectiveness of aid is inextricably linked to how the PNG Government uses its own resources to support the MTDS. Australian aid should not substitute for Papua New Guinea's own investment in priority areas. The Development Cooperation Strategy will reflect greater PNG responsibility for basic services through the budget allocation process. Strategic positioning of Australian aid resources (around 18 per cent of the total) in support of the most effective use of Papua New Guinea's resources (over 80 per cent of the total) will improve the impact and effectiveness of the aid program. The Strategy will also build on efforts to deliver the aid program through PNG Government systems to support reform, strengthen capacity and accountability and reduce unnecessary duplication.

*The impact and effectiveness of aid is inextricably linked to how the PNG Government uses its own resources to support the MTDS.*

### PERFORMANCE REVIEW AND DIALOGUE

A Performance Review and Dialogue (PRD), based on Papua New Guinea's own performance management framework, will support The PNG Government's commitments and progress towards strengthening the environment for greater aid effectiveness and establish a joint planning and review cycle for the aid program. Jointly agreed objectives and outcomes that are linked to PNG's planning and budget timetable will be set and regularly reviewed. Disbursement of a proportion of the aid program (a performance grant) will be linked to performance against jointly agreed indicators of reform, which will monitor improvements in the environment in which aid can be effective.

#### THE KEY DOCUMENTS THAT FOLLOW (FIGURES 1, 2 AND 3):

- > summarise the four core pillars of Australia's development partnership with Papua New Guinea
- > show the framework for the implementation of the aid program, and
- > provide an outline of Australia's support for Papua New Guinea's MTDS expenditure priorities.

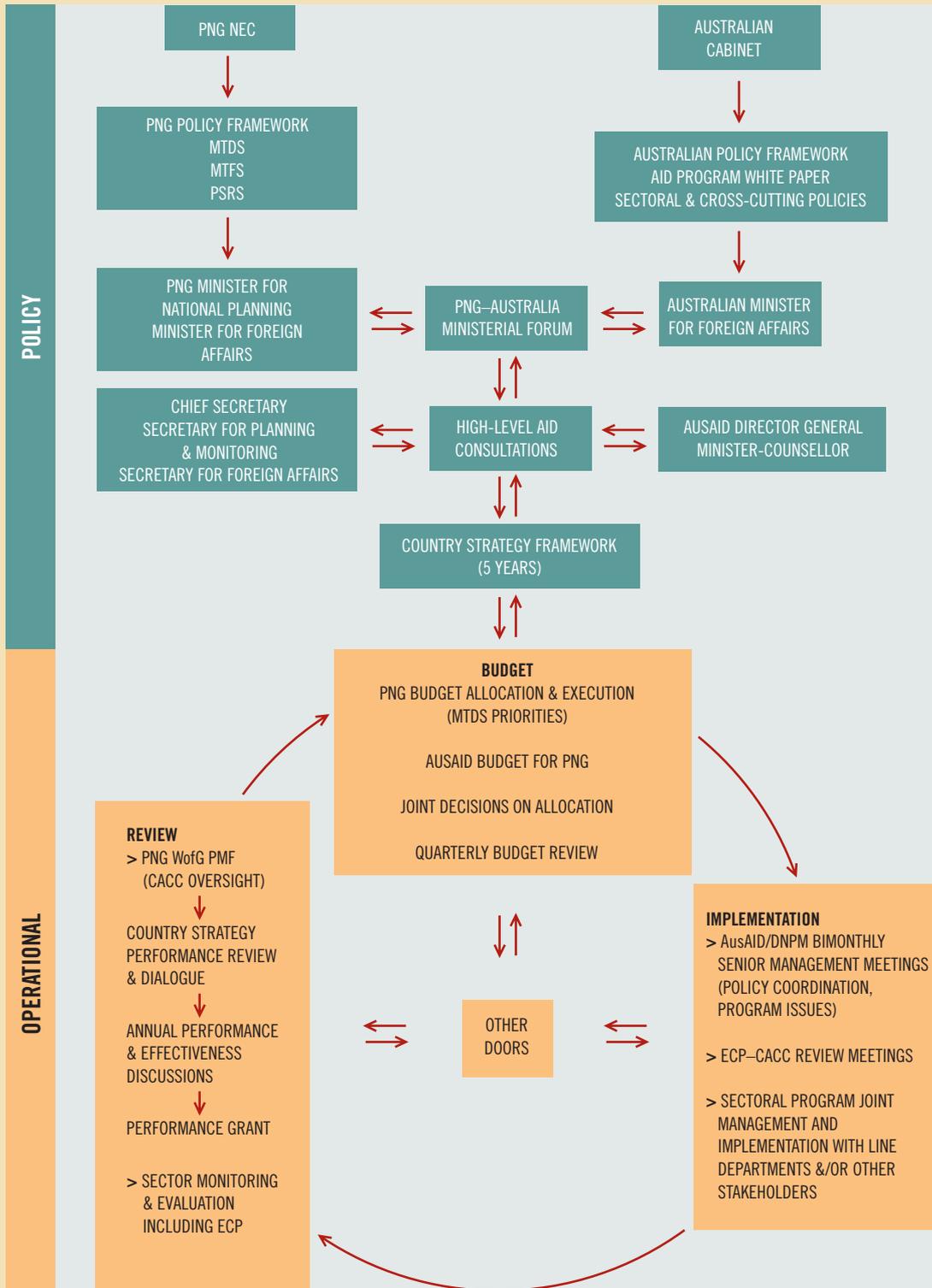
## FIGURE 1: THE FOUR CORE PILLARS OF THE PNG – AUSTRALIA DEVELOPMENT COOPERATION STRATEGY

The objective of Australia's assistance is to assist Papua New Guinea to reduce poverty and promote sustainable development.

In working towards this objective, Australia's support will be consistent with the PNG Government's Medium Term Development Strategy and the Medium Term Fiscal Framework and will focus on four core pillars.

1. IMPROVED GOVERNANCE AND NATION BUILDING	2. SUSTAINABLE BROAD-BASED ECONOMIC GROWTH AND INCREASED PRODUCTIVITY	3. IMPROVED SERVICE DELIVERY AND STABILITY	4. STRENGTHENED, COORDINATED, AND EFFECTIVE RESPONSE TO THE HIV/AIDS EPIDEMIC
<ul style="list-style-type: none"> <li>&gt; Improving budget, financial and audit management, implementing public sector reform, strengthening law and order and improving border and transport security through the Enhanced Cooperation Program and other assistance</li> <li>&gt; Strengthening the skills base and institutional capacity of GoPNG public sector agencies</li> <li>&gt; Strengthening anti-corruption systems and processes</li> <li>&gt; Strengthening administration in provincial and district governments</li> <li>&gt; Promoting the rule of law through integrated support to PNG's law and justice sector</li> <li>&gt; Supporting civil society to educate voters and build the capacity of the PNG Electoral Commission to improve electoral processes</li> <li>&gt; Improving the capacity, outreach and content of PNG media and civil society organisations to deliver information and facilitate debate on public policy issues</li> <li>&gt; Supporting social cohesion and community development through support to civil society organisations, community groups, and sporting organisations</li> <li>&gt; Support for National Parliament administrative reform; increasing parliamentarians' awareness of their role and responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Supporting improved macro-economic management, including the budget process, through ECP and other support</li> <li>&gt; Maintaining key economic transport infrastructure, including roads, bridges, airports and wharves</li> <li>&gt; Building local research capacity for technical innovation in agricultural productivity, socio-economic issues, marketing and land.</li> <li>&gt; Supporting smallholder agricultural producers through funding for research and dissemination of innovative technologies</li> <li>&gt; Supporting small and medium enterprise development and the informal sector through basic skills training, legal and regulatory reform, capacity building for private and public service providers and access to affordable finance</li> <li>&gt; Improving access to microfinance through support for service delivery, regulatory reform and training</li> <li>&gt; Investing in a more productive workforce</li> <li>&gt; Supporting the development of standards and certification for technical and vocational training</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Strengthening decentralised service delivery through support to PNG's Provincial Performance Improvement Program and District Services Improvement Program</li> <li>&gt; Assisting health systems reform through support for the Strategic Plan for the Papua New Guinea Health Sector 2006–2008</li> <li>&gt; Improving the management and delivery of basic health services through capacity building national, provincial, and non-government agencies</li> <li>&gt; Working with national agencies and other stakeholders to improve educational outcomes for students through implementation of the National Education Plan</li> <li>&gt; Increasing access to justice by strengthening the police, courts, corrections and community crime prevention initiatives</li> <li>&gt; Strengthening the role of churches as partners in service delivery and development, including in education, health, HIV and micro-enterprise development</li> <li>&gt; Strengthening disaster mitigation and management capacity of government and communities through support for the National Disaster Centre, provincial governments and non-government organisations</li> <li>&gt; Promoting sustainable peace on Bougainville through support for improved public administration and essential service delivery</li> <li>&gt; Supporting other special case provinces (e.g. Southern Highlands Province)</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Supporting the implementation of the National Strategic Plan 2006–2010 for addressing HIV/AIDS through the following priority areas: <ul style="list-style-type: none"> <li>- strengthening leadership and coordination within national, provincial and local level governments, and within the non-government sector</li> <li>- mobilising communities on HIV prevention</li> <li>- promoting gender equality and reducing sexual violence to address the greater risk posed to women and girls, and supporting equitable access to prevention and treatment services</li> <li>- expanding the health sector response; including addressing STI rates through construction of specialist STI clinics</li> <li>- mainstreaming HIV in development initiatives</li> <li>- building the evidence base for action, to ensure interventions are effective, culturally appropriate and well targeted.</li> </ul> </li> </ul>

**FIGURE 2: FRAMEWORK FOR IMPLEMENTATION OF AUSTRALIA – PNG AID PROGRAM**



**FIGURE 3: AUSTRALIAN SUPPORT TO MTDS EXPENDITURE PRIORITIES**

DCS MTDS	GOVERNANCE AND NATION BUILDING	ECONOMIC GROWTH AND INCREASED PRODUCTIVITY	SERVICE DELIVERY AND STABILITY	HIV/AIDS RESPONSE	SUMMARY OF CURRENT (2006) AUSAID-FUNDED ACTIVITIES
TRANSPORT INFRASTRUCTURE MAINTENANCE					<ul style="list-style-type: none"> <li>&gt; Transport Sector Support Program (to commence 2006)</li> <li>&gt; Key Roads for Growth</li> <li>&gt; National Roads &amp; Bridge Maintenance 2001–2006</li> <li>&gt; National Roads Regravelling and Sealing 1995–2006</li> <li>&gt; Bougainville Coastal Trunk Roads 2000–2006</li> <li>&gt; Bridge Restoration Project 2006–2009</li> </ul>
PROMOTION OF INCOME-EARNING OPPORTUNITIES					<ul style="list-style-type: none"> <li>&gt; Agriculture Research and Development Support Facility incl. Agricultural Innovations Grant Scheme (commence 2006)</li> <li>&gt; Microfinance and Employment Project (ADB) 2000–2006</li> <li>&gt; Pacific Enterprise Development Facility (IFC – commence 2006)</li> <li>&gt; ACIAR Trust Fund 2003–2008</li> <li>&gt; Bougainville Cocoa and Copra Dryer Rehabilitation Project 1997–2006</li> <li>&gt; Bougainville Microfinance (under development)</li> </ul>
BASIC EDUCATION					<ul style="list-style-type: none"> <li>&gt; Education Capacity Building Program 1998–2008</li> <li>&gt; Basic Education Development Project 2001–2008</li> <li>&gt; Curriculum Reform Implementation 1997–2006</li> <li>&gt; Manus Schools Upgrading 2003–2006</li> </ul>
ADULT LEARNING					<ul style="list-style-type: none"> <li>&gt; Pacific Technical College (commence 2006 – no allocation)</li> <li>&gt; SYB/IYB Business Development Project (1997–2006)</li> <li>&gt; Occupational Skills and Standards 2002–2006</li> </ul>
PRIMARY HEALTH CARE					<ul style="list-style-type: none"> <li>&gt; Health Sector Resourcing Framework 2003–2006 (incl. support for Health Sector Improvement Program)</li> <li>&gt; Capacity Building Service Centre 2005–2010</li> <li>&gt; Pharmaceutical Upgrade Project 2002–2006</li> <li>&gt; Demographic Health Survey 2006</li> <li>&gt; Institute of Medical Research 2001–2006</li> <li>&gt; Medical School Support Program 2003–2006</li> </ul>
HIV/AIDS PREVENTION					<ul style="list-style-type: none"> <li>&gt; PNG-Australia HIV/AIDS Support Program 2004–2015</li> <li>&gt; National HIV/AIDS Support Project 1997–2006</li> </ul>
LAW AND JUSTICE					<ul style="list-style-type: none"> <li>&gt; Law and Justice Sector Program 2003–2008</li> <li>&gt; Justice Advisory Group 2003–2008</li> </ul>

**KEY:**

	Direct relationship / significant GoA contribution
	Direct relationship / smaller GoA contribution
	Indirect relationship / significant GoA contribution
	Indirect relationship / smaller GoA contribution

### NOTES TO FIGURE 3

Public sector reform is also a priority for GoPNG. Australia is supporting implementation of the Government's Public Sector Reform Strategy, through the Enhanced Cooperation Program and the following aid program activities:

- > Support to GoPNG's Provincial Performance Improvement Program
- > Advisory Support Facility Phase II 2003–2008
- > Provincial Financial Management Training Program 1997–2006
- > Public Sector Workforce Development Initiative 2005–2007 (likely extension)
- > HR/Payroll Business Systems Project 2004–2006
- > Bougainville Governance and Implementation Fund 2003–2007

The Australian aid program is also working with a number of different partners to develop their capacity to participate in the development process. Examples include:

- > Australian Development Scholarships (ongoing)
- > Democratic Governance Program (under development ); may supersede the following activities:
  - Sport for Development Initiative (commencement 2006)
  - Media Development Initiative 2005–2007
  - Community Development Scheme 2002–2007
  - Electoral Support Program 2005–2008
- > Churches Partnership Program 2003–2009
- > Australia – PNG Incentive Fund 1999–2007
- > UN Strategic Partnerships 2005–2009
- > Support to the National Research Institute  
2005–2010
- > Support to Disaster Management 2003–2008
- > Rabaul Vulcanological Twinning Program 2000–2008

# 1 The new Strategy – an overview

## 1.1 PURPOSE

Following the recommendations of the 2004 Joint Aid Review, the Governments of Papua New Guinea and Australia agreed at the December 2004 Ministerial Forum to develop a new Development Cooperation Strategy (DCS, the Strategy) to cover their bilateral development cooperation from 2005 to 2010. The purpose of the DCS Framework is to outline the broad framework for the new Strategy, including the objective, guiding principles and focus areas for support. This Framework was endorsed by Ministers at the 17th Ministerial Forum in December 2005. Australia's aid program to Papua New Guinea will support the PNG Government's efforts to implement the Medium Term Development Strategy (MTDS) and achieve its goal of fostering sustainable improvements in the quality of life for all Papua New Guineans.

## 1.2 OBJECTIVE

The objective of the new Strategy is:

- > To support Papua New Guinea to reduce poverty and promote sustainable development, consistent with the PNG Government's MTDS and Medium Term Fiscal Strategy 2002–2007 (MTFS) and with a specific focus on four core areas:
  1. Improved governance and nation building
  2. Sustainable broad-based economic growth and increased productivity

3. Improved service delivery and stability
4. A strengthened, coordinated and effective response to the HIV/AIDS epidemic.

## 1.3 DEVELOPMENT CONTEXT

Papua New Guinea is rich in natural resources, has extensive biodiversity and is home to one of the oldest agricultural societies recorded in history. Significant quantities of capital in productive land are already owned by the people. If these resources are effectively utilised, they have tremendous promise, both in terms of economic growth and social development.

During the first 15 years of independence, Papua New Guinea made considerable progress against a number of social indicators. Life expectancy increased from 40 years in 1971, to nearly 50 years in 1980, with infant mortality declining from 134/1000 to 72/1000 over the same period. By 2002, however, Papua New Guinea's progress had slowed against a number of key social indicators with low life expectancy (57 years) high infant mortality (61/1000) and very high maternal mortality (300/100 000). In addition, a deteriorating law and order situation has increased problems of violence in the community with particular impact on women and girls.

The deterioration of the rate of improvement of key social indicators was accompanied by a worsening in the management of the economy during the 1990s. The economy contracted in all but two years between

1995 and 2002; the failure to stabilise macro-economic conditions and poor expenditure decisions led to under-funding of key activities, with resulting impacts on service delivery and the rate of growth of the economy.

In recent years, the economic climate in Papua New Guinea has improved and economic growth is projected to continue over the next five years. This growth has been accompanied by significantly improved macro-economic management, including prudent monetary policy, improved budgetary performance, lower interest rates and an appreciation in the exchange rate. These improvements were apparent in the 2005 Budget, with ongoing reductions in debt repayments and increases in funding for key MTDS priorities.

Papua New Guinea now faces challenges in maintaining these improvements. These challenges include accelerating longer-term structural reform to offset forecast declines in government revenue as a percentage of GDP, and implementing the Government's programs of public sector and expenditure reforms to ensure budgetary discipline.

Other key development challenges include:

- > dysfunctional service delivery systems and confusion over functional and financial responsibility for service delivery resulting in weak delivery of basic services to the people
- > HIV/AIDS
- > high population growth (population has almost doubled since Independence, with over 40 per cent now under 15 years of age)
- > unplanned urbanisation
- > impediments to land utilisation.

In relation to the focus and quality of Australia's aid program to Papua New Guinea, the 2004 Joint Review found that the aid program was strongly supported by a wide range of stakeholders and concluded that the program targeted key areas and priorities, was flexible and innovative, able to respond to emerging needs, and overall was considered to be effective. The new Strategy will take account of key recommendations identified by the Joint Aid Review.

## 1.4 GUIDING PRINCIPLES

The Strategy reflects a genuine partnership between Papua New Guinea and Australia in terms of how it was developed and how it will be implemented, monitored, and evaluated. This partnership is of long standing and is based on a mutual interest in a stable and prosperous Papua New Guinea. The Australia – Papua New Guinea development partnership will be driven by PNG's ownership and leadership, a strong emphasis on sustainability, and a focus on capacity building of institutions, systems, and individuals. PNG's development priorities (reflected in the MTDS) are central to the Strategy, as is a mutual commitment to resource agreed priorities in an accountable and transparent manner. It is essential that the partnership be effective due to the scale of the development cooperation program and the potential consequences of an ineffective partnership. Consistent with the 2004 Joint Aid Review three areas are critical to this partnership:

- > *Constructive engagement* – officials of both Governments need to work together cooperatively across all areas of the aid program and at all levels
- > *Effective management of all public expenditure resources* – Australian resources must work in concert with PNG Government's other resources, and be focused on supporting the articulated and jointly agreed priorities
- > *Effective whole-of-government mechanisms* – central agencies, line agencies and sub-national government in Papua New Guinea all have key responsibilities if service delivery is to be effective across the country. A coordinated, whole-of-government involvement from Australia has a role to play in strengthening PNG government institutions

The Strategy is aligned with and informed by the following key policies and aid effectiveness principles and approaches which are relevant in the Papua New Guinea context.

## 1.4.1 POLICY FRAMEWORKS

### 1.4.1.1 Medium Term Development Strategy 2005–2010

The MTDS is the PNG Government's overarching plan for social and economic development and provides the broad policy framework for the Strategy. The MTDS is based on Papua New Guinea's Program for Recovery and Development and its three objectives: good governance; export-driven economic growth; and rural development, poverty reduction and empowerment through human resource development. The MTDS identifies seven core sectoral expenditure priorities: transport infrastructure maintenance; promotion of income-earning opportunities; basic education; adult learning; primary health care; HIV/AIDS prevention; and law and justice. As a framework to guide the allocation of resources in both the development and recurrent budgets, the MTDS, together with the MTFS, also has an important role to play to support fiscal governance and the objectives of the Strategic Plan for Public Sector Reform.

*Role of government:* the MTDS recognises the central responsibility of government to provide a number of core functions necessary to improve basic living standards and social cohesion, including law and justice, primary health care, basic education and infrastructure. Capacity building and support for the delivery of these functions is a priority of the Strategy.

### 1.4.1.2 Key Australian policies

The Strategy reflects Australia's whole-of-government engagement on development issues in Papua New Guinea, including policy and operational alignment between the Enhanced Cooperation Program (ECP) and the broader aid program. The Strategy also reflects key Australian Government policies and priorities, particularly the 2005 Ministerial Statement to Parliament on the Aid Program and *Australian Aid: Promoting Growth and Stability*, the White Paper on the Australian Government's Overseas Aid Program, which reaffirms the overarching focus of Australia's aid program on poverty reduction. These policies link aid effectiveness to initiatives to strengthen political governance, tackle corruption,

stimulate broad-based growth, and promote stability. In recognition that the peace, prosperity and security of all countries are increasingly intertwined, Australian Government policies also seek to address transnational issues such as HIV/AIDS, security threats, and natural disasters. Papua New Guinea is an important development partner in relation to these issues of mutual interest, given the close historical relationship and geographical proximity of the two countries.

## 1.4.2 AID EFFECTIVENESS

The Strategy reflects Papua New Guinea's commitment to resource its own development priorities. It also supports and strengthens Papua New Guinea's ownership of its development process through agreement to common policy frameworks and approaches for assistance, aid resources being jointly programmed, incorporation of enhanced incentive arrangements, and support for the fiscal sustainability of the MTDS and its consistency with the MTFS.

### 1.4.2.1 Total budget resources

The impact and effectiveness of aid is inextricably linked to how the PNG Government uses its resources to support the MTDS. In the medium term, Papua New Guinea wishes to increase its own funding for MTDS priorities relative to donor contributions. Improving the Government's funding for the MTDS will assist it to facilitate the growth of the economy through an export-led process, which will be supported by implementation of public sector reform and strengthened governance.

A focus on the strategic application of Australian aid program resources is critical to support and supplement Papua New Guinea's total resource envelope to ensure effective integration of aid resources into Papua New Guinea's budgetary process. Strategic positioning of Australian aid resources (around 18 per cent of the total), in support of the most effective use of Papua New Guinea's resources (over 80 per cent of the total), is desirable to improve the impact and effectiveness of the aid program.

#### 1.4.2.2 Matching funding

Australian aid should not substitute for the PNG Government's own investment in priority areas. PNG Government policy requires that total (PNG Government and donor) funding for priority services should be adjusted in line with the MTDS. At the same time, PNG Government funding for these priority areas should increase to allow, over time, for a reduction in the proportion of donor funding for these Government responsibilities. The term 'matching funding' is not used in a narrow numerical sense, but rather reflects a clear trajectory towards greater assumption by Papua New Guinea of responsibility for basic services through the budget allocation process, and also that donor resources will leverage and not displace Papua New Guinea's own transparent expenditure commitments. The Governments of Papua New Guinea and Australia will jointly monitor progress against this approach over the life of the strategy. The matching funding approach recognises a limited PNG Government budget. In the early stages this approach could involve recognising improvements in the mix between salary and goods and services expenditure in support of service delivery.

#### 1.4.2.3 Integration with Papua New Guinea systems

A key feature of the Strategy is building on and strengthening existing work on program-based approaches and working within PNG systems. Successful work is already under way in the health and law and justice sectors where the aid program has worked within government systems to support reform efforts and to strengthen monitoring, accountability and capacity to provide improved services. Further work in this direction will promote PNG Government leadership and ownership and be focused on practical measures to enhance integration with PNG systems and reduce duplication and parallel systems wherever possible. This will include joint consideration of the most appropriate aid delivery mechanisms to ensure that opportunities for increasing integration with PNG systems are maximised in keeping with the readiness and capacity of different sectors to move forward with integration.

#### 1.4.2.4 Sequencing and prioritisation

Due to the range and complexity of Papua New Guinea's development challenges and the limited resources available to address them, the type, prioritisation and sequencing of support will need to be carefully considered. For example, while support for health, education and other basic services may be a high priority, support needs to be designed to avoid long-term dependence on parallel, unsustainable structures while also operating at a sufficient scale to meet basic needs. Where appropriate, prioritisation should follow that outlined in the MTDS to ensure coherence and strengthen Papua New Guinea's ability to realise its goals. Flexibility to respond to a changing development environment will also be critical, as will recognition that improvement in Papua New Guinea's development status is a long-term undertaking.

#### 1.4.2.5 Partnerships, coordination, and harmonisation

The Strategy will continue to build on key relationships within Papua New Guinea for the implementation of the aid program with relevant partners and stakeholders including church agencies, non-government organisations, communities, the media, the private sector, and research institutes. Where relevant, Australia will also continue its efforts to collaborate and partner with other bilateral and multilateral donors (including international finance institutions) to reduce transaction costs and improve the efficiency of donor activities in Papua New Guinea, including through alignment with PNG systems.

### 1.4.3 PERFORMANCE REVIEW AND DIALOGUE

The PNG Government will review and strengthen its planning, monitoring and evaluation system with support from the Australia Government through the aid program, which will reflect Papua New Guinea's own planning and budgeting timetable.

The Performance Review and Dialogue (PRD) for the Strategy will draw on these efforts and will support the commitments to greater aid effectiveness, including the principle of matching funds as outlined in section 1.4.2.2, above and will establish a joint planning and review cycle for the aid program.

This process will be underpinned by the following principles:

- > focus on PNG Government's own policy and prioritisation agenda, as articulated through the MTDS and the Public Sector Reform Strategy, and its own performance management framework, which is currently under development
- > jointly agreed objectives and outcomes set and reviewed through regular discussions and linked to Papua New Guinea's own planning and budget process
- > joint monitoring of objectives, derived from the MTDS, based on simple measurement and reporting arrangements
- > an incremental approach – using information to improve the direction and mix of budget, public administration and development activities
- > disbursement of a proportion of the aid program linked to performance against a set of jointly agreed indicators, and
- > flexibility in the time frame for the disbursement of the Australian annual aid allocation.

Performance information from PNG performance management systems will form the basis for regular consultations on progress over reform and service delivery. These consultations will also provide an opportunity for reviewing and revising how aid resources and Papua New Guinea's own funds are allocated to best support the implementation of the MTDS. Within this overall performance management context, Australia and Papua New Guinea will agree annually on a small number of key indicators (drawn from the PNG Government's own plans) that demonstrate improvements in the environment in which aid resources can be effective. Australia and Papua New Guinea will set aside an incentive component within the overall aid program that will be disbursed according to the level of progress achieved against these indicators.

Where key performance indicators are being achieved, the PRD will determine how the incentive payments will be disbursed, either through support for existing programs or emerging reform priorities. The PRD will also include indicators focusing on the quality and performance of the aid program in terms of how it is supporting the PNG Government in delivering support to jointly agreed areas.

Joint planning and review should facilitate a common understanding of the macro-economic, public finance and public service environment in which aid can be effective. Engagement with the central agencies and, in particular, the departments of National Planning and Monitoring (DNPM), Treasury, and Prime Minister & National Executive Council (DPM&NEC) on how to support Papua New Guinea to strengthen the linkage between the MTDS and the budget (and budget implementation) will be a critical part of how to take this agenda forward.

Australia and Papua New Guinea will engage, where appropriate, with other development partners to support the development of Papua New Guinea's performance management framework and the PRD to encourage a harmonised approach amongst donors in delivering aid to Papua New Guinea.

## 1.5 FRAMEWORK FOR THE NEW PROGRAM

The new Strategy supports the PNG Government's implementation of the MTDS in areas where Australia, as PNG's major development partner, has a comparative advantage. In particular, the four core and interlinked pillars of the Strategy directly support the PNG Government's efforts to achieve development impact and outcomes in the core sectoral expenditure priorities of the MTDS. These are: improved governance and nation building; service delivery and stability; sustainable economic growth and productivity; and combating HIV/AIDS.

The four pillars provide an interlinked response to PNG's development priorities.

- > Improved governance and public administration is essential to develop a sustainable capacity to deliver services and implement policies that support sustainable broad-based economic growth. In their absence, corruption and mismanagement can undermine economic growth and poverty reduction.
- > Sustainable economic growth provides access to the material resources necessary for poverty reduction and improvements in living standards. It also provides government with increased resources to fund service delivery while helping to build community demand for accountable and transparent governance.

- > Improving the delivery of services in education and health improves the living standards and productivity of people, their access to markets and information, and their contribution to economic growth.
- > An effective allocation of resources, functioning health system, and good transport links support a comprehensive response to HIV/AIDS. Combating HIV/AIDS will also lead to improved economic prospects based on a more productive workforce and reduced strain on health services.

Australia's program of assistance responds in an integrated, coherent way across the four pillars.

### 1.5.1 IMPROVED GOVERNANCE AND NATION BUILDING

Papua New Guinea's development as a stable and prosperous nation is dependent on good governance. Good governance involves sound democratic and state institutions and a participative and vibrant civil society with confidence in the state. Effective

and sustainable government institutions, robust accountability mechanisms and adherence to the rule of law are all essential prerequisites to sustained growth and poverty reduction. Responsible and accountable leadership by decision makers at all levels of government in Papua New Guinea is critical to the effective operation of these processes.

Papua New Guinea's Program for Recovery and Development, the MTDS, the Public Sector Reform Strategy (PSRS), the Public Expenditure Review and Rationalisation (PERR) program and the national budget process together set out Papua New Guinea's policy framework for improving governance and nation building. Improving services and achieving Papua New Guinea's MTDS objectives requires public sector reform and improved governance.

Australia will assist the PNG Government to fulfil its obligation to deliver core service delivery functions through a practical program of short-, medium- and longer-term public sector reform. This program, which will include an ongoing commitment to the



ABOVE: People gather to vote in a Port Moresby by-election, October 2004. With support from AusAID, the PNG Electoral Commission is working to improve the integrity of the electoral roll, heighten community awareness of electoral matters and strengthen electoral processes. PHOTO: Rocky Roe

Enhanced Cooperation Program (ECP), will be coherent, sequenced, coordinated and affordable and will recognise the ongoing importance of nation-building initiatives.

Future assistance could support Papua New Guinea to strengthen:

- > democratic governance systems and processes that involve the strengthening of partnerships between civil society and the state in relation to service delivery, policy, transparency and accountability
- > adherence to the rule of law, including addressing corruption through strengthening key existing institutions, effective systems of transparency and accountability, and the implementation of the proposed ECP anti-corruption strategy
- > greater cohesion within and between communities, and building a sense of nation through sports and peace-building activities
- > the performance of the public sector and its focus

on core functions. This should include building the capacity of key institutions and strengthening public sector systems and processes, particularly the systems of public administration, public expenditure management, transparency and accountability across and between all parts of government, and

- > political and parliamentary processes recognising the impact political governance has for broader economic and administrative processes.

### 1.5.2 SUSTAINABLE ECONOMIC GROWTH AND PRODUCTIVITY

The key to reducing poverty levels will be sustainable, broad-based economic growth that leads to improvements in living standards of all Papua New Guineans including development indicators such as life expectancy, literacy and infant and child mortality. Projections for future economic growth rates are around 2.5–3 per cent per annum over the next few years, which is well below the 6–7 per cent



ABOVE: Income-earning opportunities are boosted by local markets where buyers and sellers meet to trade food crops and crafts. AusAID works closely with key partners throughout Papua New Guinea on projects to improve the standard of living and drive economic growth. PHOTO: Rocky Roe

per annum considered necessary to make significant inroads into reducing poverty. Potentially, HIV/AIDS could also have a negative impact on these projections. The MTDS recognises this and identifies the creation of sustainable growth and stability as key priorities underpinned by sound policies, macro-economic stability and increased spending on core services.

International experience has demonstrated that there is no single path to achieving economic growth and that while broad principles such as sound policies and institutions are vital, strategies need to be country specific. The PNG Government's strategy for supporting economic growth is articulated in the MTDS and its targets: (1) reducing impediments to investment and doing business; (2) improving market access including enhancing the competitiveness of exports; and (3) enhancing agriculture, forestry and fisheries productivity. Importantly, the MTDS recognises that it is the private sector and not the public sector that is the engine for economic growth.

The Strategy will assist PNG Government efforts while recognising that Australian resources are finite. It will be informed by a strengthened program of collaborative economic research and analysis to improve the understanding of factors shaping the prospects for economic growth in Papua New Guinea.

Future assistance could include:

- > supporting an improved macro-economic, policy and regulatory environment including through ongoing ECP activities
- > addressing key constraints to private sector activity, such as reducing security risks and linking people and their goods to markets through improvements to key transport infrastructure
- > enhancing the productivity of the rural sector through:
  - improving access to financial services
  - supporting information dissemination and research and development for the introduction of new and appropriate agricultural technologies, products and business models

- improving quality standards for export
  - building human capital
  - supporting pilot approaches to improved land utilisation, and
- > supporting increased workforce skills development as a key driver for increased productivity and competitiveness and to enable greater labour mobility with Australia (and other developed countries).

### 1.5.3 IMPROVED SERVICE DELIVERY AND STABILITY

The PNG Government has a key responsibility in the delivery of basic services including health, education, transport and law and order. Failure to deliver these services can lead to weakened social cohesion, including instability, poor economic growth, increased poverty and disempowerment of people.

Ensuring the delivery of services is a core function of Government. PNG's Medium Term Development Strategy articulates practical approaches to strengthen this function. The MTDS concludes that, on the whole, current service delivery systems in Papua New Guinea are dysfunctional with widespread confusion over functional and financial responsibility and inequity of funding across the three levels of government. This is having a significant impact on the welfare of ordinary Papua New Guineans, particularly in rural areas.

The Development Cooperation Strategy recognises that Papua New Guinea's decentralised system of government is here to stay. Australia will adopt a multifaceted approach to service delivery in which support for national systems will be complemented by support for service delivery at the provincial, district and local levels through initiatives such as the District Services Improvement Program.

The Australian aid program will work with key PNG institutions at the appropriate level of government to strengthen public administration and budgeting for sustainable, affordable and accountable service delivery. Strengthening provincial management teams will be essential to ensure national programs are planned and budgeted for at provincial, district and local levels. In addition, support for these

teams will ensure that resources are prioritised between these levels of government and that district and local levels of government are supported to implement services.

Australia's support will recognise the different contexts and capacities of individual provinces and districts, particularly special-case and least-developed provinces and districts where stability is at risk, and utilise existing aid program mechanisms to respond to these cases.

Future assistance could include:

- > supporting the development of coherent, prioritised and affordable service delivery systems in key sectors such health, education, transport, and law and justice

- > supporting sub-national public administration and budgeting
- > supporting effective partnerships between state and non- state service providers, especially churches
- > supporting the PNG Government to develop strategies that support an improved, decentralised system of service delivery
- > continued support for special-case provinces including Bougainville, Southern Highlands Province and Western Province.



ABOVE: An outreach clinic in Oro Province. Outreach clinics funded through the aid program provide vital services to rural communities in Papua New Guinea. PHOTO: Rocky Roe

#### 1.5.4 COMBATING HIV/AIDS

Papua New Guinea is in the midst of an HIV/AIDS epidemic, with an estimated 2 per cent of the population already infected. All levels of society are affected. HIV/AIDS is a significant development issue.

HIV/AIDS prevention can be challenging and controversial. An effective response requires confronting and changing the behaviours and societal structures that make individuals and communities vulnerable: income, age and gender inequalities; alcohol and drug abuse; inadequate access to essential services; and domestic and sexual violence.

HIV/AIDS demands a change in the way that organisations work. HIV/AIDS mainstreaming means that all sectors and agencies understand how they might be affecting the HIV/AIDS epidemic, how HIV/AIDS might be affecting their own development outcomes and how to adapt their programs accordingly.

Australia is committed to working closely with Papua New Guinea to prevent the expansion of the epidemic and to support those individuals and

communities already affected. Priority support could include:

- > promoting PNG leadership
- > strengthening a multisectoral response where HIV/AIDS is mainstreamed through all planning and budgeting processes, supported by effective accountability mechanisms
- > improving our understanding of the epidemic through surveillance and research
- > addressing the underlying factors that increase vulnerability, with a strong focus on addressing gender inequity in access to services, and male and female behaviours
- > strengthening the health sector to support increased access to testing, treatment and management of sexually transmitted infections (STIs), HIV/AIDS and opportunistic infections.

There will be a joint Papua New Guinea – Australia mid-term review of the Development Cooperation Strategy, including a review of the Performance Review and Dialogue mechanism. The review will include an independent third party expert.



ABOVE: The Anglicare STOPAIDS theatre group is just one of the many non-government organisations across Papua New Guinea staging plays at local markets, schools, and other community meeting places to help inform and educate people about HIV/AIDS. This performance at Morata settlement in Port Moresby attracted a good audience. PHOTO: Rocky Roe

## 2 Implementation

### 2.1 INTEGRATION WITH PNG SYSTEMS AND AID MODALITIES

#### 2.1.1 CONTEXT

The Governments of Papua New Guinea and Australia are committed to strengthening program-based approaches and to increasing the integration of Australia's aid program with PNG systems. Further work will promote PNG Government leadership and focus on practical measures to enhance integration. The approach emphasises a mutual commitment to program approaches that strengthen PNG systems at an appropriate pace.

The overarching framework for the increased use of PNG Government systems is set out in the Paris Declaration on Aid Effectiveness (March 2005). The focus of this declaration, agreed to by both Governments, is on ownership, harmonisation, alignment, results and mutual accountability.

The declaration emphasises strong government leadership as a key driver for improved aid effectiveness.

For Papua New Guinea this means a commitment to:

- > sound and coherent policies
- > a focus on delivering results
- > transparent and accountable budgetary processes
- > strengthened capacity at all levels

- > improved coordination within Government and between Government and donors, and
- > reinforcing participatory approaches by systematically involving a broad range of partners when formulating and assessing progress in implementing development strategies.

For Australia this means:

- > respect for partner country leadership and assistance to strengthen Papua New Guinea's capacity to exercise it
- > willingness to work in close coordination with other donors, and
- > strengthening aid modalities that support stronger integration with PNG systems.

#### 2.1.2 WORKING THROUGH PNG SYSTEMS

Increased use of PNG systems for the delivery, monitoring and evaluation of aid is a key feature of greater alignment with PNG Government priorities. Progress in this area will reduce transaction costs caused by duplication and the use of parallel systems. Progress in this area is dependent on the PNG Government's ability to provide:

- > leadership in the development of sectoral plans and programs aligned to the MTDS
- > medium-term expenditure and resource frameworks

- > a results-oriented monitoring and evaluation framework, and
- > financial and management accountability systems that are effective and efficient.

Australia will engage in joint assessments of existing capacity within sectors and institutions, and, if necessary, support the strengthening of such systems. Where the use of PNG systems is not feasible, Australia will develop, together with Papua New Guinea, alternative mechanisms that strengthen rather than undermine PNG's systems.

As PNG Government systems are strengthened, aid reporting mechanisms can be further simplified, thereby reducing transaction costs for both Governments.

A key aspect of a stronger partnership approach is a commitment from Papua New Guinea to increase its allocation of resources to key service delivery programs over time. Australian aid should not substitute for Papua New Guinea's own funding of MTDS priorities.

### 2.1.3 AID MODALITIES

A program approach is a method of engagement based on coordinated partner country and donor support for a locally owned program of development. A sector-wide approach (or SWAP) is where the development program applies to a specific sector.

The Governments of Papua New Guinea and Australia recognise that support for program approaches does not imply a specific means of funding, such as budget support. A range of aid modalities can be used within a program approach, including traditional projects, technical assistance, earmarked financing, pooled financing, sector budget support, and general budget support.

Currently the Papua New Guinea – Australia aid program uses a range of aid modalities. Any changes to these modalities will be based on dialogue with the PNG Government, paying due attention to the specific circumstances of individual sectors and programs and to the principles set out in the Paris Declaration. Sector approaches supported by

Australia are already under way in health and law and justice, and good progress is being made in transport, education and HIV/AIDS. Australia will continue to work closely with Papua New Guinea to strengthen the development and implementation of programs in line with overarching sectoral policy frameworks.

*Building the capacity of organisations to deliver their mandate makes an essential contribution to the goal of good governance.*

### 2.1.4 CAPACITY BUILDING

Capacity building of systems, organisations and individuals is an integral part of the development process. 'Capacity' refers to the ability of the public sector and, increasingly, the private and civil society sectors to deliver the outputs and outcomes required by their mandate. Building the capacity of organisations to deliver their mandate makes an essential contribution to the goal of good governance.

Building capacity within Papua New Guinea to lead, develop, and implement development plans and programs will underpin the increasing integration of Australian assistance with PNG systems and the use of new and different aid modalities. Australia will work with Papua New Guinea to jointly assess capacity-building needs and implement programs that will underpin organisational reform efforts and ensure the sustainability of gains made in efficiency and effectiveness. Australia is committed to working with Papua New Guinea to build capacity and strengthen key institutions over the long term, while recognising that sustainability is a fundamental issue that will require ongoing assessment and review to ensure aid delivery modalities continue to be appropriate.

## 2.2 PARTNERSHIPS

Australia and Papua New Guinea acknowledge and value the wide range of partners who play a significant role in Papua New Guinea's development. Aid effectiveness and efficiency can be greatly enhanced, and development outcomes strengthened, by identifying where comparative advantages lie and making good use of the most appropriate partnerships to achieve specific development outcomes. Australia will continue to be proactive in its efforts to collaborate and partner with churches, community-based organisations, non-government organisations, the private and the informal sectors, and international bilateral and multilateral donors to reduce transaction costs and improve the efficiency of development programs. Coordination and harmonisation with other donors on strategy and program implementation (aligned to Papua New Guinea's development policies and priorities), consistent with the principles of the Rome Declaration, will be a high priority. Australia recognises its responsibility as Papua New Guinea's most significant development partner to play a lead role in supporting donor coordination.

Some elements of the aid program will be implemented in partnership with civil society organisations. Australia's key partner, however, is the PNG Government. Australia's primary focus remains, therefore, on strengthening existing state systems and processes to continuously improve the Government's capacity to implement its development programs and deliver outcomes to the people of Papua New Guinea. This includes support for overarching efforts to implement Papua New Guinea's good governance agenda through initiatives such as the proposed National Anti-Corruption and Good Governance Strategy, which will build on efforts to date such as strengthening the budget process, tightening procurement processes, and reducing claims against the state.

### EFFECTIVE PARTNERSHIPS FOR DEVELOPMENT

- > City Pharmacy is contributing to the fight against HIV by buying and distributing condom vending machines throughout their extensive retail network.
- > The Adventist Development Relief Agency (ADRA) is working on small enterprise development with women's groups in villages and settlements around the Lae region, including providing training in basic business skills and microfinance.
- > The Consultative Implementation and Monitoring Council (CIMC) is working with the Eastern Highlands Provincial Administration to establish a provincial-level network of civil society and state advisory committees on key policy areas.
- > The National Agricultural Research Institute is working with the Christian Leaders Training College, Seventh Day Adventist high schools and other church-based networks in the Highlands region to multiply and distribute improved planting materials to farmers.
- > The Joint United Nations Programme on HIV/AIDS (UNAIDS) is establishing and leading a donor forum on HIV/AIDS for all donors contributing to the HIV response in Papua New Guinea.
- > The CIMC informal sector working committee is consulting with national and provincial stakeholders to address constraints to the informal sector through legislative reform and implementation.

### 2.3 BUILDING KNOWLEDGE AND INFORMATION

Australia and Papua New Guinea will develop a jointly agreed research and analytical strategy with a small number of high-priority activities to be implemented annually. The strategy will be based on the priorities of the Medium Term Development Strategy and the Development Cooperation Strategy.

The purpose of research conducted under the research and analytical strategy is to build knowledge and information; facilitate well-informed debate involving all stakeholders on policy issues; support evidence-based decision making on the allocation of funds and implementation of programs; and improve the quality and relevance of monitoring and evaluation systems and processes.

Research partnerships will be developed based on the following principles:

- > PNG institutions will be partners in all research activities, which will include assistance to strengthen existing research and analytical capacity.
- > Research outcomes must be applicable to practical policy and program implementation issues.
- > Research proposals will address gaps in existing knowledge.
- > All proposals will include a strategy for dissemination of findings.

Possible priorities include a diagnostic analysis of economic growth constraints and possibilities; mapping of informal sector networks and opportunities; issues relating land tenure and administration; issues relating to decentralisation (including costs of service delivery); cost–benefit analysis of public sector programs; and social analysis including further work relating to HIV/AIDS, or other areas jointly agreed with the PNG Government.

Australia will work with appropriate institutions and research coordinating mechanisms established by the PNG Government to identify strategic areas of research with policy relevance to support development outcomes.

In addition to targeted, policy-based research, Australian funds may support research at the technical or scientific level, for example, research on agricultural production technologies, including through involvement of other Australian agencies, such as the Australian Centre for International Agricultural Research (ACIAR). The strategy will also take account of research work supported by other development partners, including the World Bank Group and the Asian Development Bank.

## 3 Monitoring and evaluation

### 3.1 PERFORMANCE REVIEW AND DIALOGUE

The Papua New Guinea – Australia Development Cooperation Strategy (the Strategy) articulates how Australian development cooperation support will contribute to the implementation of Papua New Guinea’s Medium Term Development Strategy (MTDS) and achievement of its development outcomes. The Performance Review and Dialogue (PRD) for the Strategy is designed to assist both Governments to measure and assess progress towards those outcomes and have a structured dialogue around development issues and performance.

The PNG Government is committed to the development of a whole-of-government performance management framework (PMF), which will be overseen by the Central Agencies Coordinating Committee (CACC). The Department of National Planning and Monitoring (DNPM) has responsibility for the development, monitoring, and reporting on key MTDS objectives and outcomes. The Strategy’s PRD will sit under and be aligned with the PNG Government’s PMF, once that framework is in place.

The Strategy’s PRD has a performance grant attached to it that is intended to provide Papua New Guinea with access to a large tranche of aid (\$30 million) in a rapid and flexible form, which could be used by the PNG Government to support emerging public sector reform priorities and/or provide top-up funding to particular sectoral programs that are performing well and would benefit from expansion or acceleration or both.

A model for the PRD is outlined below, but both Governments agree that further work will be required to jointly develop the details for implementation. This process will occur incrementally, with an initial focus on a small number of jointly agreed, simple and achievable indicators.

#### 3.1.1 PNG GOVERNMENT’S PERFORMANCE MANAGEMENT FRAMEWORK

Australia welcomes the PNG Government’s commitment to developing a whole-of-government PMF, which once established is expected to be the basis for assessing progress in achieving development outcomes arising from the MTDS. Papua New Guinea’s PMF could usefully provide a platform for the Government to engage donor partners in robust and focused dialogue on development issues.

In line with the Paris Declaration on harmonisation, Australia is committed to supporting the development and the implementation of Papua New Guinea’s PMF as the primary tool for assessing development effectiveness and progress for the following reasons.

- > A joint commitment to using the performance information generated by the PNG Government’s PMF avoids the establishment of duplicate or parallel reporting requirements, and their associated costs, and ensures that all performance information generated by sectoral programs (including aid-funded activities) contribute to PNG Government requirements.

- > Australia and Papua New Guinea cannot assess the impact of Australia's aid program without knowing how Papua New Guinea is going against its own objectives. As Australian support to Papua New Guinea is increasingly integrated into PNG systems through the use of program-based approaches and other aid modalities, it is the results from Papua New Guinea's own development efforts that will tell us if progress is being made. Achievements and progress towards development outcomes reflect a combined effort of government leadership and donor support.

### 3.1.2 PAPUA NEW GUINEA-AUSTRALIA PERFORMANCE REVIEW AND DIALOGUE

The PRD for the Strategy is designed to facilitate a structured dialogue between Papua New Guinea and Australia on development issues and progress towards achieving development outcomes as articulated in the PNG Government's key development strategies and reform agendas. PRD discussions will also focus on Australia's effectiveness as a donor in its support to PNG's development priorities. Eventually, performance information generated by the PNG Government's PMF will form the basis for the dialogue.

A small set of targets (consistent with the PMF once it is developed), to be agreed by both Governments, will be progress indicators linked to the disbursement of a **Performance Grant** – a portion of the aid program that will be disbursed based on achievement against those targets (or 'triggers'). The Performance Grant will be \$30 million from within the total annual allocation, which will be released in part or in full based on joint assessment of achievement against the triggers.

The objective of the Performance Grant is to provide Papua New Guinea with access to a large tranche of aid in a rapid and flexible form to support priority development initiatives that contribute towards MTDS objectives. The release of the grant will be timed to suit the PNG Government budget cycle so that it can be planned for and programmed effectively. While use of the Performance Grant by the PNG Government will be jointly agreed on an annual basis, it is anticipated that the grant will support high-priority programs linked to the MTDS.

The process must be kept simple. Australia's performance dialogue with Papua New Guinea is expected to focus only on **process** and **output** indicators for quite some time, in addition to the effectiveness of Australia's program of assistance. Outcome information is equally important in tracking the development context, but the initial focus of the performance dialogue should be on matters that are within the control of Government.

High-level annual consultations between Papua New Guinea and Australia cover the overall development context, as well as specific discussion on performance information and the disbursement of the performance grant. The focus will be on broad progress by Papua New Guinea in achieving its development objectives and the role of Australia in supporting progress (including issues of effectiveness).

Annual consultations will be supplemented by a range of regular forums for information sharing at both the sectoral and whole-of-government level. There will continue to be a range of monitoring and performance information available on activities supported by the Australian aid program, based on ongoing monitoring and evaluation processes. This information will be discussed at DNPM–AusAID senior management meetings and other sector-level coordinating mechanisms (also with DNPM representation).

#### 3.1.2.1 Implementing the PRD

In order to implement the Performance Grant component of the PRD in 2006 (to be available in the PNG 2007 budget year), an initial set of jointly agreed triggers is required. These triggers must be achievable and simple to measure and monitor. They will focus on key processes that are linked to MTDS implementation and support the achievement of development outcomes.

The initial process indicators are:

- > resource allocation that is increasingly directed to MTDS priorities
- > AusAID participation in PNG Government quarterly budget reviews
- > development of a performance management framework for the MTDS, with DNPM leadership (which will ultimately be integrated with the whole-of-government PMF), and

- > bimonthly senior management meetings between DNPM and AusAID.

In subsequent years, the performance-grant triggers will also be jointly agreed between the Governments of Papua New Guinea and Australia. The triggers may target broader reform agendas as well as the MTDS, if the two Governments agree. The triggers should ultimately be a subset of the PMF, to eliminate duplicate monitoring and reporting requirements. Discussion on how the Performance Grant will be used by the PNG Government to support priority development outcomes will take place annually.

In recognition of the fact that the PRD and associated Performance Grant is a new and untested approach, the two Governments have agreed to establish a joint committee to oversee the implementation of the PRD. The PRD committee will be a working group of, and report to, the DNPM–AusAID senior management meeting. The PRD will also be reviewed as part of the agreed mid-term review of the Strategy.

### 3.1.2.2 One clear DCS performance initiative

Both Governments agree that there is a need to review the current Australia–PNG Incentive Fund early in the DCS period. The review will reflect the primacy of the new PRD and associated Performance Grant while addressing the need to retain strategic opportunities for non-state actors of excellence to contribute to Papua New Guinea’s development priorities.

This PRD is based on the PNG Government’s commitment to develop a whole-of-government PMF. Should the PMF not be developed early in the life of this Development Cooperation Strategy, a performance assessment framework specific to the Strategy will need to be put in place.

### 3.1.2.3 Performance planning and review

The process for performance planning and review will be an annual cycle, based on the key steps set out in the table below.

## PERFORMANCE PLANNING AND REVIEW – KEY STEPS

TIMING	PROCESS	COMMENTS
Development Cooperation Strategy commencement	Governments of PNG and Australia agree on initial set of small, simple, achievable triggers to be linked to first performance grant disbursement	Examples <ul style="list-style-type: none"> <li>&gt; Quarterly budget review meetings held (with donor participation)</li> <li>&gt; Progress towards the development of the PNG PMF</li> </ul>
Year 1 1 <sup>st</sup> quarter (Jan–Mar)	PNG Government publishes results from PMF (when available), together with other relevant data	Examples <ul style="list-style-type: none"> <li>&gt; Output and process information</li> <li>&gt; Major studies, surveys, macro-economic indicators, aid flows</li> </ul>
Year 1 2 <sup>nd</sup> quarter (or as performance information is available)	Governments of PNG and Australia initiate dialogue on performance information, culminating in high-level consultations.	Dialogue to include: <ul style="list-style-type: none"> <li>&gt; Development context</li> <li>&gt; Broad progress towards development objectives (PMF information), including PNG commitment of funds to MTDS priorities</li> <li>&gt; Assessment of progress on high-level indicators of Australian aid program effectiveness</li> <li>&gt; Review of sectoral monitoring and evaluation information</li> <li>&gt; Changes in program priorities or expenditure based on progress</li> <li>&gt; Specific discussions on progress against agreed triggers</li> <li>&gt; If necessary, discussion on strategies for achieving triggers in the remainder of the PNG financial year and external support required to do so</li> <li>&gt; Agreement on full or partial disbursement of Performance Grant</li> <li>&gt; Agreement on triggers for next performance cycle.</li> </ul>
Year 1 3 <sup>rd</sup> quarter	PNG Government to integrate programming of performance grant into budget cycle for Year 2	> Use of performance grant funds to be determined in consultation with the Australian Government
Year 2 1 <sup>st</sup> quarter	Disbursement of performance grant, in flexible form, based on agreed priority programs Release of Year 1 performance information	

### 3.2 RISK MANAGEMENT PLAN

RISK	LIKELIHOOD	IMPACT	RISK RATING	MANAGEMENT OF RISK
Current improvements in macro-economic management and external environment does not continue	Low	High	Medium	Work with key central agencies and ECP officials to support PNG achievements in macro-economic stability
2007 elections not conducted freely and fairly	Low	Medium	Medium	Support PNGEC and civil society to achieve greater integrity of PNG electoral processes
Localised conflict undermines development outcomes	Medium	Medium	Medium	Continued engagement with GoPNG to support poorly performing and special-case provinces
Aid funds substitute for GoPNG's own investment in priority areas	Low	Medium	Medium	Increase dialogue with GoPNG on budget development and implementation (participation in the quarterly budget review process).
Inappropriate sequencing or incomplete implementation of reform programs lead to weakened governance and reduced growth potential	Medium	High	High	Engage in ongoing dialogue with GoPNG on its reform agenda and provide support for key initiatives
Corruption results in leakage/diversion of funds away from priority areas	Medium	High	High	Support efforts to combat corruption through strengthening key existing institutions and systems of transparency and accountability
Weaknesses in decentralisation are not addressed, resulting in a further decline in service delivery	Medium	High	High	Support GoPNG efforts to improve the decentralised system of government
Major humanitarian disaster/s undermine development spending and impact on growth prospects	Low	Medium	Low	Support GoPNG's capacity to respond to disasters in a timely and efficient manner
Breakdown in law and order undermines PNG's development goals and impacts on aid delivery	Medium	High	Medium	Continue priority support to law and justice sector
Response to HIV/AIDS epidemic is inadequate	High	Medium	Medium	Support and promote GoPNG's leadership and coordination in addressing HIV/AIDS response
GoPNG support for MTDS implementation is not realised	Low	High	Medium	High-level and systematic engagement across government on MTDS priorities
Poor donor coordination and harmonisation reduces effectiveness of aid	Medium	Medium	Low	Encourage and support GoPNG's leadership in donor coordination. Work to ensure coherency of donor policy advice. Support PNG's development of a whole-of-government performance management framework
Relationship between GoPNG and non-service providers breaks down, impacting on delivery of essential services	Low	Low	Low	Support effective partnerships between GoPNG and non-state service providers
Delivery of aid through PNG systems slows down delivery of donor support	High	Medium	Medium	Focus on strengthening PNG systems while working through them
GoA's transparency and accountability requirements limit delivery of funds through PNG systems	Medium	High	Medium	Build capacity in GoPNG systems to ensure funds can be channelled through these mechanisms. Where reliance on PNG systems is not possible, ensure aid delivery mechanisms are as integrated as possible
Insufficient or inappropriate AusAID and GoPNG human and/or financial resources to manage new modes of aid delivery.	Medium	High	Medium	Ensure appropriate level of resources are provided

## 4 Background papers

### 4.1 PAPUA NEW GUINEA POVERTY ANALYSIS

#### 4.1.1 WHAT IS POVERTY?

The Draft PNG Poverty Reduction Strategy (PRS) defines poverty as, 'the lack of access to economic and financial growth opportunities and the inefficient delivery of, and lack of access to, basic services'. Factors seen as contributing to this definition include: 'weak governance, weak social support systems, unsustainable use of natural resources, unequal distribution of resources and a poorly maintained infrastructure network'. When that is added to population growth, natural disasters, disease, and increasing pressure on land, it becomes increasingly evident that poverty is a real issue in Papua New Guinea.

A Participatory Poverty Assessment conducted by the Asian Development Bank (ADB) in 2002 showed that the people consulted defined poverty in terms of lack of access to jobs and cash; land; education; services such as health care and water supply; transport and roads.<sup>1</sup>

#### 4.1.2 MEASURES OF POVERTY IN PAPUA NEW GUINEA

Analysis of the incidence and severity of poverty in Papua New Guinea is hampered by the absence of current or reliable data. The 1996 National Household Income and Expenditure Survey provides the most reliable quantitative data on poverty, measured by patterns of consumption and nutrition. The overall poverty rate for the total population was 37.5 per cent but the rural rate (41 per cent) was 2.5 times higher than the urban rate (16 per cent).<sup>2</sup> About 94 per cent of the poor lived in rural areas. The survey found that poverty was more severe amongst women than men. The survey also found a high level of income inequality and considerable variation in poverty levels across and between provinces and regions. Highlands and Momase had higher poverty rates than the New Guinea Islands or southern regions. The National Capital District had poverty rates well below the national average.

More recent poverty analyses indicate a rising level of poverty since 1996. Recent World Bank projections based on the 1996 survey estimate that the proportion of the population below PNG's poverty

1 Asian Development Bank, *Priorities of the Poor in Papua New Guinea*, 2002.

2 Based on a food poverty line that gives the required nominal value of consumption for a basic daily diet (K461/year in 1996).

line increased from 37.5 per cent in 1996 to about 54 per cent in 2003.<sup>3</sup> The World Bank states that the key underlying factor for the increase in poverty has been the economic contraction between 1996 and 2003.

Since 2003, economic growth rates in Papua New Guinea have improved considerably and inflation has dropped sharply, as a result of effective macro-economic management and rising commodity prices, and the short-term outlook is for continued annual growth of about 3 per cent. The International Monetary Fund in 2005 reported the current Government had made strides in addressing the economic challenges it inherited, and that the economy was now performing well.<sup>4</sup> The key challenge going forward would be to sustain recent gains while moving the economy to a higher-growth path to reduce poverty.

Poverty measures based on cash income alone inadequately account for the important role that subsistence agriculture plays in supporting PNG's population. The predominantly rural population is highly reliant on traditional methods to meet basic food, clothing and shelter requirements. However, remote communities are disadvantaged by poor access to services, low-cash income and, in some areas, marginal land for cash crop production.

Human Development Indicators provide a more comprehensive picture of the nature of poverty in Papua New Guinea, as they highlight the low levels of access to essential services in rural areas, and the low quality of service provision overall. The 2004 United Nations Human Development Index ranked Papua New Guinea 137 of 173 countries surveyed according to a range of income and non-income measures of development.<sup>5</sup> The 2004 report showed a deterioration of performance since 2000. The report states that PNG's life expectancy is 57, compared to 67 in East Asia and the Pacific region, and child mortality rates are more than double the

regional average. Literacy rates vary across regions, from 35 per cent in the Highlands to 78 per cent in New Guinea Islands. Papua New Guinea's highly dispersed population and its topography makes provision of adequate transport services another significant challenge. More than 1.5 million people live more than four hours walk from the nearest main road.<sup>6</sup>

### 4.1.3 CAUSES OF POVERTY

The causes of poverty are many and complex and vary considerably between communities and regions across Papua New Guinea.

The considerable impact of Papua New Guinea's rugged terrain and widely dispersed population on service delivery and market access is recognised. The cost of providing even basic services can be very high. Roads are costly and difficult to build and maintenance costs are high. Providing other basic services such as water and electricity are also costly and logistically challenging. So is the provision of medicines and school materials; all of which often need to be transported by canoe or foot over many kilometres.

In addition to the challenges of geography, population growth, natural disasters, disease, gender inequality, and increasing pressure on land or underdevelopment of land assets also play a significant role in contributing to poverty in Papua New Guinea.

Variable and often weak capacity in many areas to manage public administration efficiently and ensure that limited resources are carefully allocated to priority expenditure areas so that key services are delivered compounds the significant natural causes of poverty in Papua New Guinea. Four critical issues contributing to ongoing poverty are considered below.

3 World Bank, *PNG Interim Strategy Note for PNG*, 22 March 2005, Annex A: 'Poverty In Papua New Guinea'.

4 IMF Executive Board Concludes 2005 Article IV Consultation with Papua New Guinea, Public Information Notice (PIN) No. 06/20, 24 February, 2006.

5 <http://cfapp2.undp.org/hdr/statistics/data/>

6 Australian National University Land Management Group for AusAID, *PNG Roads Priority Study: Review of National Roads in PNG*, 2005.

#### 4.1.4 POPULATION GROWTH

Papua New Guinea is experiencing rapid, sustained population growth of about 2.5 per cent per year. At the current rate of increase, the population will double to 12 million by 2035.<sup>7</sup> In some areas this is placing pressure on land resources, and internal migration to urban areas is a growing trend. Notwithstanding recent improvements in the economic growth rate, sustained higher rates of economic growth will be required to reduce poverty and increase standards of living for Papua New Guinea's rapidly growing population.

Papua New Guinea's formal sector does not generate sufficient employment opportunities to absorb the expanding workforce. In 2002, less than 10 per cent of the workforce had jobs in the formal sector.<sup>8</sup> Agriculture will remain the mainstay for the majority of the population who will not obtain formal employment. Agriculture currently contributes around 40 per cent of GDP, but that does not take into account the significant contribution made by subsistence agriculture.<sup>9</sup> The Government has identified agriculture as a priority sector for driving higher economic growth rates but constraints such as market access and law and order need to be comprehensively addressed.

#### 4.1.5 LAW AND ORDER

The law and order situation can be expressed as both a consequence and contributing factor for poverty, although the relationship cannot be assumed to be simple or direct. Increasing urbanisation and the lack of formal job opportunities for the young population are reducing the influence of traditional social systems and increasing unrest, particularly in urban areas. High crime rates are frequently cited by businesses as a major risk to doing business in Papua New Guinea. Papua New Guinea also faces endemic low-level conflict, such as tribal fighting,

particularly in the Highlands region. This type of conflict can increase a family's or community's poverty through loss of assets such as land, crops, farm animals, and housing. Papua New Guinea's enclave mining industry has led to pockets of more severe conflict, such as in Bougainville or Southern Highlands. The intensive investments from the Government and external aid agencies in the reconstruction of Bougainville highlight the cost of conflict in terms of restoring service delivery and creating economic opportunities for the population.

#### 4.1.6 GENDER EQUALITY

Gender equality has been proven worldwide to be an important factor in reducing poverty and achieving sustainable development. Countries with higher gender equality also tend to have higher economic growth.<sup>10</sup> Gender-related statistics for Papua New Guinea show that there is much that can be done to improve gender equality. The 2002 ADB study showed that young women, single mothers and the elderly were represented amongst the poorest of the poor.<sup>11</sup> Women interviewed reported that poverty was caused by lack of cash, low educational attainment or skills base, lack of services or transport, social pressures, breakdown of relationships, inequality, crime, and the demands of the extended family. Social and economic indicators reinforce the disadvantaged status of women. Papua New Guinea is one of the few countries in the world where the life expectancy of women is less than for men. The female literacy rate of 51 per cent is well below the male rate of 63 per cent.<sup>12</sup> There is a strong correlation between gender, literacy, and poverty. A high incidence of domestic violence and rape results in health issues, social isolation, and loss of freedom, which, through loss of schooling and employment opportunities can contribute to increased poverty levels.

7 Government of PNG, *Medium Term Development Strategy 2005–2010*, p. 30.

8 (McMurray, 2002), cited in EAU, *Papua New Guinea – The Road Ahead*, 2004, p. 2; ADB, *Country Strategy and Program Update 2004–2006*; Australian Treasury, *PNG Economic Review*, January 2006, p. 2.

9 'ANZ: Poverty level will not be reduced', in *The National*, 15 February, 2006.

10 *Gender Issues in Globalisation and Governance*, Asia-Pacific Region: Background Paper for the White Paper on the Aid Program, 2005, p. 1.

11 Asian Development Bank, op. cit.

12 <http://hdr.undp.org/2006/statistics>

#### 4.1.7 HIV/AIDS

Papua New Guinea has the highest rate of reported HIV cases in the Pacific region, with a national prevalence rate estimated at 2 per cent and cases reported in every province. The prevalence rate increases up to 6 per cent among adults in urban areas and 14 per cent among urban female sex workers. The epidemic is sexually driven.

There is now widespread recognition that the HIV epidemic presents a serious threat to the future of Papua New Guinea. Research indicates that the epidemic will worsen over the coming years, and that Papua New Guinea is poorly equipped to manage the increasing effects of the epidemic on all levels of society. Factors such as poverty, gender relations, sexual violence and high-risk sexual activity combine to create a high-risk environment for the spread of HIV in various contexts throughout Papua New Guinea. The nature of the epidemic also means that the working age population is worst hit, resulting in significant economic costs, not only from provision of services for treatment and care, but loss of income-earning ability from both HIV-positive people and their carers. The combination of medical costs and loss of income can have a significant impact on poverty levels for individuals and communities. The epidemic requires a comprehensive response through expanded engagement with all institutions and sectors of the population.

#### 4.1.8 PNG GOVERNMENT'S RESPONSE

The MTDS is the PNG Government's overarching plan for social and economic development. The MTDS states, 'Poverty is a multi-faceted issue that requires an integrated and cross-sectoral response. Poverty reduction will be addressed by investing in people through education and health and by promoting broad-based economic growth.' The MTDS provides a sound policy framework for addressing poverty and achieving sustainable development. However, effective implementation will be necessary to achieve real inroads into reducing poverty.

The PNG Government has developed a range of strategies for addressing a number of priority development challenges. Foremost amongst

them is potential impact of HIV/AIDS, which is being addressed through the National Strategic Plan 2006–2010 for addressing HIV/AIDS. The Government has also acknowledged the vital role of the informal sector in both rural and urban environments for generating income-earning opportunities, and has introduced a range of support measures, including legislative change. Other key focal areas for government action include human resource development, land utilisation strategies, and addressing gender inequality.

## 4.2 FINDINGS OF 2004 JOINT AID REVIEW

### 4.2.1 KEY MESSAGE

The review found three critical areas require attention to make the aid program more effective:

1. Constructive engagement – officials of both Governments need to work together cooperatively across all areas of the aid program and at all levels.
2. Effective management of all public expenditure resources – aid funds must work in concert with the PNG Government's own resources, and be focused on supporting the articulated and jointly agreed priorities.
3. Effective whole-of-government mechanisms – central agencies, line agencies and sub-national governments all have key responsibilities if service delivery is to be effective across the country. An effective aid program has a role to play in strengthening the institutions of government.

### 4.2.1 AID EFFECTIVENESS

The review team found the aid program was effective, innovative and flexible, and strongly supported by a wide range of stakeholders. Specific recommendations to improve aid effectiveness are:

1. **Participation:** Increasing the level of PNG private sector participation in the delivery of the program was a priority for the PNG Government. The review recommended that the (then) current restriction limiting service contracts to ANZ firms should be lifted to enable PNG and other firms to compete under the 'value-for-money' principle.

2. **Public expenditure management:** Aid funds should support PNG public expenditure and strengthen budget priority setting and performance, so that all resources (government and donor) are directed to agreed development priorities. PNG central agencies play a vital role in supporting service delivery.
3. **Joint management:** PNG Government participation in all aspects of program planning and management is necessary. Going further, the review recommended fully integrating AusAID's planning and budget management systems into PNG Government systems.
4. **Aid modalities:** There are advantages to program-based assistance but, introducing new aid delivery modalities should not be rushed.
5. **Prioritisation:** While the Australian aid program is flexible and responsive, it may have stepped in to fund activities for which the PNG Government itself should have accepted responsibility, raising concerns about fungibility.
6. **Engagement:** A good relationship with key agencies, ministers, and service deliverers was an important building block – a feature of the aid program. Constructive engagement between AusAID and the Department of National Planning and Monitoring needs to be further developed and maintained.

#### 4.2.1 DEVELOPMENT PRIORITIES

The review found that PNG Government development priorities, as stated in the MTDS, were not sufficiently reflected in its expenditure programs over the period 1997–2002 and this had impeded achievement of objectives.

The review also found that both Governments had at times changed their funding priorities. While this was an inevitable result of changing circumstances and government agendas, it could have been better managed with more robust and constructive dialogue.

#### 4.2.2 PERFORMANCE FRAMEWORK

The review found that, although the benchmark system had contributed to the Australian Government's understanding of the PNG national budget and helped PNG line departments negotiate budget appropriations, it had not been a useful performance management tool. The benchmarks did not serve to improve sector funding, PNG participation, central agency ownership or service delivery outcomes as envisaged. Nor did failure to achieve benchmarks result in any review of aid allocations.

Performance management and mutual obligation remain important principles, as well as requirements of the Development Cooperation Treaty. The review recommends a more flexible and realistic approach based on policy coherence, consistency and commitment.

The review recommended a new performance management framework be put in place which is jointly developed and monitored, using PNG systems. An annual Joint Development Cooperation (Aid) Effectiveness Review is recommended. Review and possible revision of the treaty is also likely to be needed.

#### 4.2.3 PAPUA NEW GUINEA COUNTRY STRATEGY

The review emphasised the importance of the Country Strategy (CS), given the scope and scale of the aid program. It recommends the next CS be developed with rigour and implemented with discipline, and:

- > be based on PNG's MTDS
- > have a strategic (and possibly narrower) focus
- > reflect other PNG reform initiatives including the PERR and National Economic and Fiscal Policy work
- > clarify mutual obligations and the agreed performance management framework
- > reflect and integrate the ECP, and
- > be developed jointly with whole-of-government endorsement.

#### 4.2.4 DONOR COORDINATION

The review found that little progress had been made towards donor coordination at an operational level, despite its benefits for aid effectiveness. Improved donor coordination under PNG Government leadership would reduce the administrative burden placed on the PNG Government by donors and increase aid effectiveness.

#### 4.2.5 ENHANCED COOPERATION PROGRAM

While the team was not required by its terms of reference to review ECP, it took the opportunity to comment on the importance of ensuring technical interventions are delivered within a wider framework of strengthening institutional capacity and building sustainability.

### 4.3 COUNTRY STRATEGY ALIGNMENT WITH MEDIUM TERM DEVELOPMENT STRATEGY

#### 4.3.1 THE MEDIUM TERM DEVELOPMENT STRATEGY 2005–2010

The MTDS is the PNG Government's overarching development strategy. The MTDS is based on the Government's Program for Recovery and Development, which has three objectives: good governance; export-driven economic growth; and rural development, poverty reduction, and empowerment through human resource development. In support of these broad objectives the MTDS identifies seven expenditure priorities:

- > rehabilitation and maintenance of transport infrastructure
- > promotion of income earning opportunities
- > basic education
- > development oriented informal adult education
- > primary health care
- > HIV/AIDS prevention
- > law and justice.

As a comprehensive development strategy the MTDS serves two critical functions: to provide high-level guidance on the priority areas and supporting policies necessary for social development and economic growth; and a framework to guide expenditure in support of these priorities and to support fiscal governance.

#### 4.3.2 PAPUA NEW GUINEA – AUSTRALIA DEVELOPMENT COOPERATION STRATEGY

The Strategy is the framework that will guide Australian assistance to Papua New Guinea. Like the MTDS, the DCS provides the high-level policy guidance that will direct program-level expenditure choices towards achieving the objective of assisting Papua New Guinea to reduce poverty and achieve sustainable development. Australia is committed to reinforcing the primacy of the MTDS as Papua New Guinea's development strategy, and to supporting the identified expenditure priorities as well as the supporting policies, systems and processes that will underpin its successful implementation.

The Strategy is based on four mutually supporting pillars that emphasise strategic linkages between sectoral expenditure programs. The pillars are: improved governance and nation building; sustainable economic growth and productivity; improved service delivery and stability; and combating HIV.

Within the broad framework of the MTDS and the Strategy, specific program interventions will be jointly planned and implemented by the Governments of Australia and Papua New Guinea, based on the comparative advantages that Australia has to offer. In doing so, both Governments will recognise that the resources Australia can provide to address poverty and promote sustainable development will only be fully effective when they are supporting strong leadership by the PNG Government in defining and addressing its own development priorities.

Australia is committed to working in harmonisation with other bilateral and multilateral donors who will also contribute to the implementation of the MTDS and the achievement of Papua New Guinea's development priorities.



ABOVE: A village meeting in Simbu Province, Highlands. Village meetings are still the most popular vehicle for gauging public opinion throughout Papua New Guinea. Everyone, no matter how old or young, is given the opportunity at these gatherings to join in discussions that affect their community. PHOTO: Rocky Roe

A brief discussion of MTDS and DCS policy alignment follows. Further details, including examples of possible interventions, are provided under the sections for each DCS pillar (1.5.1–4).

#### 4.3.2.1 Improved governance and nation building

Good governance is one of the three foundation stones for the Government's Program for Recovery and Development. Both the MTDS and the Strategy acknowledge that the PNG Government's Strategic Plan for Public Sector Reform, the MTFs and the PERR are key processes for improving governance, which require coordinated support from both government and donors for implementation.

Improving the allocation and management of Papua New Guinea's own resources will have the greatest long-term impact on achieving Papua New Guinea's development goals. Innovative aid delivery modalities, such as sector-wide or program-based approaches, will facilitate the integration of donor resources into Papua New Guinea's own systems so that the systems and processes of government are strengthened; thus ensuring all resources (government and donor) are directed to their highest priority ends and utilised efficiently and effectively.

This pillar is consistent with the MTDS emphasis on the role of strategic partnerships for development. The aid program recognises the important role of both government and civil society actors in supplying and demanding more robust political processes, as well as accountability and transparency, and will seek to constructively engage a broad range of stakeholders, including churches, media, sports people, politicians and other community leaders.

#### 4.3.2.2 Sustainable economic growth and productivity

The DCS focus on sustainable economic growth is consistent with the MTDS. Both policies recognise that the private sector has a central role to play as the driver of growth, while the Government is responsible for creating a supportive, enabling environment that allows the private sector to prosper. The enabling environment for growth includes political stability, the rule of law, macro-economic stability, a transparent and efficient legal and regulatory framework (including for local business, foreign direct investment and trade), as well as delivery of the basic services that will enable all Papua New Guineans to participate in economic activity, such as education, health,

transport infrastructure, and law and order. Australia will provide support in all of these areas, which are consistent with MTDS expenditure priorities and supporting policies, with a focus on building PNG capacity for long-term sustainability.

Both the MTDS and the Strategy recognise that, with 87 per cent of the population living in rural areas, the benefits of economic growth need to reach beyond the cities and towns, and that agriculture will continue to be an important driver of growth, along with the other sectors identified by the MTDS (forestry, fisheries, tourism). Access to markets, information, and appropriate technology will contribute to enhanced productivity in rural areas. The aid program will provide support in areas consistent with the MTDS expenditure priorities of maintenance of transport infrastructure and promotion of income-earning opportunities, such as road maintenance, agricultural research and outreach, and technical skills training.

#### 4.3.2.3 Improved service delivery and stability

Both the Strategy and the MTDS recognise that basic service delivery, in areas such as transport infrastructure; basic education; primary health care; and law and justice, is a priority for public expenditure and improved performance.

It is important to note the linkages between the objective of improved service delivery and stability, and the objectives of good governance and economic growth.

Improving the efficiency and effectiveness with which government can deliver priority services to its people will help address issues of affordability and access to opportunity identified by the MTDS. Hence, Australian assistance to support good governance is not limited to improving central agency performance, but is being implemented through all sector programs and through our support to provincial and district administration.

As stated in the MTDS, 'human resource development not only directly improves the living standards of Papua New Guineans, it is also an essential requirement for a successful growth

strategy.' Education and health services are an investment in the productive potential of Papua New Guinea's greatest resource, its people.

#### 4.3.2.4 Combating HIV

The MTDS identifies HIV as a potentially catastrophic threat to the achievement of MTDS objectives. This DCS pillar recognises the urgency and scale of the response required to effectively combat HIV.

Importantly, the MTDS also states that HIV, 'is a wider developmental issue that must be addressed from a multisectoral perspective'. The DCS framework places a strong emphasis on the potential of HIV to destabilise or reverse Papua New Guinea's development gains. Under the new Strategy, Australia will be following the PNG Government's lead in taking a multisectoral approach by mainstreaming HIV issues and responses into all aid-funded activities. Australia will also be providing increased assistance for implementation of PNG's *National Strategic Plan on HIV/AIDS 2005–2010*.

### 4.3.3 PERFORMANCE REVIEW AND DIALOGUE

The MTDS places strong emphasis on the need for effective monitoring and evaluation to support the implementation of the MTDS and to inform future development strategies. The MTDS states that, in addition to monitoring programs for implementation, monitoring at the budget allocation and expenditure level is crucial to 'reflect on the effectiveness of the overall public expenditure management system and help to highlight issues that may require corrective action by the Government'. The Strategy endorses the importance of an efficient and effective monitoring and evaluation system that will improve accountability for performance at all levels, from program implementation to the integrity of the budget. Further work is required to operationalise an effective system. Australia will assist Papua New Guinea to establish a performance management framework for measuring its development performance. Performance assessment for the DCS will be based on PNG's whole-of-government system.



