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PROGRAMME PLANNING

Country and intercountry programmes and projects

FOURTH COUNTRY PROGRAMME FOR PAPUA NEW GUINEA*

Programme period	Actual resources programmed	$
1987-1991	IPF for 1987-1991	8 356 000
	Third cycle IPF balance	262 895
	Total	8 618 895

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*Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include: (a) ongoing projects; (b) proposed projects; (c) distribution of resources by objective; and (d) distribution of new country programme by sector.

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I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES

A. Current economic trends

1. During 1984, Papua New Guinea's economy grew by about 2 per cent, reversing economic stagnation that had been experienced since 1979. The recovery was largely stimulated by higher domestic consumption, increased agricultural exports and a reduced level of imports. Growth continued in 1985, but showed some weakness, particularly because of the effects of adverse international commodity prices on the country's export sector.

2. With an open economy, Papua New Guinea has historically found its level of economic activity determined largely by performance in international markets. In this respect exports of gold and copper have been the most significant sources of foreign exchange earnings, although other primary products, notably coffee, timber, palm oil, cocoa and copra, have also been important contributors to overall foreign exchange earnings. In each case earnings are highly vulnerable to international price movements.

3. Unfortunately, the international prices of gold and copper remained depressed in 1985, with little prospect for much improvement in the foreseeable future. Thus, despite considerable improvements in efficiency at the Bougainville copper mine to compensate for declining ore grades, profits have slumped and the contribution to Government revenue has been well below historical averages. The new mine development at Ok Tedi has also been badly affected by depressed prices and, although gold production has now commenced, there is still considerable uncertainty regarding the timing and level of future copper production.

4. The outlook for Papua New Guinea's other major export commodities is also somewhat discouraging. Real prices for cocoa, palm oil and copra are expected to decline over the next several years. With respect to coffee, the international price has recently been rising, and efforts are being made to boost output to take full advantage of the more promising situation. It is also expected that cocoa and palm oil production will grow by about 20 per cent over the period to 1990.

5. In mid-1986, the new five-year aid agreement with Australia will come into effect. The agreement provides for a 3 per cent per annum real decline in total external assistance (measured in Australian dollars), with budget support aid declining by 5 per cent a year. However, if the fall in the value of the Australian dollar relative to the Papua New Guinea kina continues, this would mean a further reduction in real value for the package. Papua New Guinea will therefore need to make considerable adjustments to absorb the decline in Australian aid and to prepare for the shift from budgetary to project-tied aid that is envisaged.

6. Over the next five years, the Government expects the economy to grow in real terms by almost 3 per cent a year. In 1986 and 1987 as gold production from Ok Tedi will reach its peak, it is expected that, despite depressed mineral prices, the increased volume of production will raise the overall value of mineral exports and serve as a major anticipated contribution to this growth. In the future years,

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it is hoped that growth will be sustained by new investments in mines, agriculture, fisheries and forests and large investments by commercial statutory authorities such as the Electricity Commission.

7. However, although the economy itself is expected to show reasonable growth, the Government's fiscal position is not at all encouraging. In the period to 1990, Bougainville Copper Limited and Ok Tedi are likely to be the only mines contributing directly to Government revenue through the Mineral Resources Stabilisation Fund. The outlook for copper and gold prices suggests that resultant inflows to this Fund will remain low at a time when there is to be a sizeable decline in Australian aid. The prospects for raising additional internal revenue are not particularly good and the existing high level of public debt suggests that it would be imprudent to expand commercial borrowing to any significant degree.

B. National development strategies

8. The Government recognizes that the challenge ahead is to promote a broadly based economic growth strategy able to create a steady increase in productive jobs. With relatively rapid population expansion and declining Australian aid, the economy must grow if the widespread aspirations for improved living standards, greater prosperity and increased access to Government services are to be realized. Such a strategy is to be incorporated into a five-year development and investment programme, 1987-1991, currently under preparation.

9. This programme will be founded on an initial sector-by-sector analysis of the appropriate role for the Government and the relative priority of these activities. It has been agreed that the Government needs to concentrate more on the key functions that only it can perform and that its activities must complement and support the private sector. The aim is to create a more congenial business climate that will encourage private sector expansion.

10. At present, the most immediate and pressing problem is that a rapidly growing labour force, whose expectations have been boosted by the educational and economic developments of the past 10 to 15 years, is not being offered sufficient and attractive employment opportunities. The Government wishes to see a more efficient use of resources and it will attempt to alleviate the present situation by improving the economic climate and removing unnecessary regulations; encouraging more private investment (both domestic and foreign); containing high wage costs; employing skilled manpower more effectively; improving land use; increased Government efficiency; and promoting the broad development of agriculture and natural resources.

11. Basic to these efforts is training and capacity-building in the provinces and at the national Government level. Efforts are to be made to improve the skill level of senior management, improve revenue and financial administration and the quality of policy-making in key departments and provinces. The capacity for such activities as project formulation, implementation and co-ordination will be enhanced.

12. The 1986 budget, as the path-setter for future years, is based on strategies for internal revenue generation, reduction of dependence on external borrowings and increase in investments. It is, however, recognized that a significant shift in emphasis cannot be achieved in one year and that it would take a few years to make it a reality. Taking this realistic approach, the budget aims at a total expenditure of K930 million, out of which debt service accounts for K176 million. The Australian grant for budget support would be about K210 million (as against K243 million in the 1985 estimate) and grants from other sources, concessional borrowings and project-tied grants (e.g. World Bank, Asian Development Bank (AsDB), European Development Fund (EDF), etc.) are estimated at K65 million. In view of the tight liquidity situation facing the economy, domestic borrowings are estimated at lower than the 1985 level of K61 million. A major effort has therefore to be made to improve revenue generation in departments and provinces, including the collection of known arrears, and to sustain the revenue base in future years through the improvement of administrative systems, training, etc. It is hoped in this way to compensate for declining levels of Australian budget support aid.

C. Technical co-operation priorities

13. The Government recognizes that a main constraint to the successful implementation of the development and investment programme remains the shortage of skilled manpower. This shortage means that the Government still attaches high priority to, and relies to a significant extent, on technical co-operation, especially where it is aimed at skills improvement and general training. Access to technical co-operation and training is of great assistance to the Government in its effort to achieve capacity-building and to speed up the localization of both the public and the private sectors.

14. Technical assistance will be co-ordinated by the Department of Finance and Planning in accordance with priorities approved by the Government. Priorities for technical assistance will coincide with and support Government programmes and projects in all major sectors. The priority areas for training that have been identified include accountancy and business studies, financial management, development planning, engineering, science, medical science and other social sciences.

15. With respect to technical co-operation under the auspices of the fourth country programme, the Government has identified three main priority sectors. They are: (a) agriculture, forestry and fisheries; (b) general development policy and planning (including manpower development and training, strengthening of financial management and project preparation for pre-investment studies); and (c) industry. technical co-operation from UNDP is highly valued because it is in the form of untied grants, because it allows access to training institutions that are not covered by agreements with Papua New Guinea's main bilateral donors and because the Government recognizes the ability of the United Nations system to recruit high-quality expertise both from the international market and from its specialized agencies.

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II. THE COUNTRY PROGRAMME

A. Assessment of current country programme

16. Papua New Guinea's third country programme was approved by the Governing Council in January 1983 for the period 1983-1986. The third country programme made a useful contribution in strengthening national development administration and in helping to lay a firm foundation for expanded economic growth and greater national food self-sufficiency.

17. The limited indicative planning figure (IPF) funds available were successfully allocated to urgent Government needs in four priority areas, namely: manpower development, subsistence food production and nutrition, forestry and the control of salvinia molesta. In all cases, UNDP assistance has made a valuable contribution. The manpower development project has upgraded the skills and educational levels of public servants through the provision of short- and long-term fellowships overseas. A new food and nutrition policy has been adopted by Cabinet in order to encourage greater local production and self-sufficiency in basic food requirements, and UNDP efforts have led to the establishment of a Food and Nutrition Co-ordination Unit, and laid the groundwork for possible International Fund for Agricultural Development (IFAD) financing for a major investment project. The forestry sector, in resource management and development programmes, has had the benefit of expert technical advice. A resounding success has been achieved by closely co-ordinated UNDP, Papua New Guinea, New Zealand and Australian efforts to control salivinia molesta, which had clogged the lagoons of the Sepik river system, interfering with agriculture, fisheries, transportation and commerce and forced the abandonment of entire villages.

18. In the course of the third country programme, another priority need became apparent. During 1984, the Government embarked on a major programme of administrative reform and UNDP agreed to transfer $US 240,000 from other areas of the programme which were progressing more slowly than originally anticipated. The Government itself contributed $US 500,000 to this administrative reform exercise. The project has focused on pre-investment studies, on providing technical assistance to the preparation of the national development plan and on financial and provincial management. A total of some $US 2 million was contributed by the Government in the form of cost-sharing to a number of projects. It is foreseen that the Government will continue cost-sharing arrangements.

B. New programme proposal

19. In line with the basic objectives of the new development and investment programme, the major thrust of the fourth country programme will be support to rational programmes and projects promoting economic growth and the creation of productive work opportunities. A complementary objective of the new country programme will be increased Government efficiency and improved economic management and development planning capacity. More specifically, the country programme will promote the following three major objectives:

(a) Expanded production in the agriculture, forestry and fisheries sector (46 per cent of total IPF resources);

(b) Strengthening of general development policy, planning and financial management (35 per cent of total IPF resources);

(c) Promotion of industrial development (19 per cent of IPF resources).

20. Within the agriculture and fisheries sectors, UNDP will target its assistance particularly towards the promotion of traditional smallholders and small-scale fishermen. Specific initiatives will include a smallholder cash crop development and artisanal fisheries extension. In the forestry sector, research efforts will be channelled towards the regeneration of forestry resources.

21. Under the heading of general development policy, planning and economic management, UNDP will continue to contribute to overall manpower development through the provision of both overseas and in-country training, strengthening planning and financial management capacity, particularly at the provincial level, and pre-investment studies to assist in the development of the nation's physical and institutional infrastructure.

22. In the industrial sector, UNDP will assist the Department of Trade and Industry in its efforts to implement the Government's policies as embodied in the White Paper on industrial development approved by Parliament. This relatively new Department requires assistance for upgrading its professional capability in order to improve the services it offers in a number of areas, including policy planning and programming, project identification and evaluation, assistance to provinces and small-scale entrepreneurs and the promotion of both foreign and domestic investment in industry.

23. The 1987-1991 IPF is relatively unencumbered; over 79 per cent of the total available funds are programmed for new projects to be commenced in the forthcoming programme. UNDP is therefore in a good position to make a worthwhile, albeit modest, contribution to the implementation of the development and investment programme. This is considered to be a markedly improved situation compared to that which prevailed during the 1983-1986 period when ongoing project commitments signficantly inhibited the development of new project activities.

1. New project proposals

Agriculture, forestry and fisheries

24. In conformity with the Government's priority of strengthening the agricultural base of the economy and in recognition of the fact that this sector holds the greatest prospect for growth and increased employment, three new project proposals are being formulated which will require UNDP technical co-operation assistance. These are: (a) fisheries skill development and extension; (b) smallholder cash crop development; and (c) forestry management, phase II. The primary objective of each of these projects is to move towards greater efficiency in the exploitation of the nation's natural resources and to improve the economic returns that are earned. Aspects of these projects will focus on upgrading extension services through training, providing specialized extension services to smallholders,

especially those in isolated areas; research into improved methods of managing and protecting resources and, where appropriate, the eradication of diseases which may threaten their sustained productivity.

General development policy, planning and financial management

25. The Government has recognized that weaknesses remain in public sector management, especially in relation to revenue generation and economic planning and budgeting. Four new projects are currently under preparation, in consultation with UNDP, which will address these problems: (a) training and technical support in financial management and revenue generation; (b) strengthening central and provincial planning units; (c) manpower development, phase II; and (d) pre-investment studies (i.e. consultancy studies aimed at the assessment of project feasibility and project design). All four of these interrelated and complementary projects will supplement the Government's investment in upgrading the nation's human and capital resources. These initiatives are expected to improve the identification, design, implementation, monitoring and evaluation of projects, the co-ordination between national and provincial governments and strengthening of the internal revenue base.

Industrial development

26. The Government places considerable emphasis on the development of the manufacturing sector as a means of diversifying the country's economic structure. In order to provide promotional assistance for the development of the industrial sector, the Government created a new Department of Industrial Development in early 1983 and followed it up with the announcement of a comprehensive industrial development policy in 1984. In view of the close links between trade and industry, the Government has now transferred the trade function to the new Department which has been renamed as the Department of Trade and Industry. The Government is keen to ensure that the new Department of Trade and Industry is developed into a fully fledged professional and efficient organization for carrying out its promotional functions.

27. In order to achieve this objective, UNDP will be requested to provide assistance in the fourth country programme for the upgrading of the industrial promotion section of the Department of Trade and Industry. The project will consist of an advisory team of long-term international experts working in-house, together with short-term consultancies and volunteers, to help to develop the Department's capability in industrial development work and to train national personnel with professional skills in areas such as industrial policy formulation and programming, project preparation and appraisal, the preparation of surveys and market studies, small industry development, the formulation of policies and the conduct of negotiations with potential investors. The national personnel will work alongside the international experts and volunteers in order to acquire the relevant skills and knowledge. The results of this project are expected to include project preparation and evaluation manuals and various studies that may result in investment opportunities for local entrepreneurs.

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2. Ongoing projects

28. Approved projects to be continued from the third to the fourth country programme will include those promoting growth and employment opportunities in line with the development and investment programme objectives and will be in the priority sectors of manpower development and training, and agriculture, forestry and fisheries. These ongoing projects will be complementary to planned initiatives and are listed below.

(a) Professional Manpower Development (PNG/83/001). This project, which is intended to strengthen national development administration, became operational in mid-1984. It provides for short-term, in-country and long-term overseas training for middle- and senior-level public servants. All the funds allocated for short-term training have been utilized and long-term training is proceeding smoothly with only two fellowships still to be awarded. Although all the long-term fellowships are likely to be awarded before the end of 1986, there will obviously be some commitments that will have to be met in the fourth country programme. Commitments on in-country training are also certain to spill over into the new programme period given that no funds have yet been spent on this item, pending consideration by the Government of major recommendations put forward by a UNDP consultant funded under this project;

(b) United Nations Volunteers (UNV) Multisectoral Project (PNG/81/004). This project became operational in late 1984. It provides vocational expertise in various sectors, relieving the shortage of professional level national manpower at a markedly lower cost to the Government than through the alternative of hiring expatriate contract officers. It also leads to the training of counterpart national staff. These objectives are expected to remain relevant throughout the fourth country programme period and will backup new initiatives aimed at upgrading national and provincial planning, management and co-ordination units;

(c) Forest Management Research and Development (PNG/84/003). This two-year research project commenced at the end of 1985. The primary objective of the project is to demonstrate and document suitable silvicultural management techniques that would promote natural and artificial regeneration in logged-over lowland tropical forests so as to ensure sustained productivity of these forests. A small-scale project consisting entirely of six short-term consultancies was implemented in 1985. The models developed will lead to initiatives designed to support PNG/84/003. It is foreseen that this project will continue through the fourth country programme period;

(d) Sepik River Fish Enhancement Project (PNG/85/005). This three-year project is expected to commence in 1986. The objective of the project is to increase the number of fish varieties in the Sepik river so as to occupy understocked niches more fully and make better use of existing feed sources for fish. It is expected that greater productivity will lead to higher catch rates and improved nutrition, and will serve as an eventual base for longer-run commercial exploitation of the resource;

(e) Training and Technical Support in Financial Management and Revenue Generation (PNG/86/001). This two-year project is expected to commence in

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1986. The objective of the project is to improve the revenue generation and financial management capacity of the provinces through intensified training and gradual computerization of financial systems and training of graduates for achieving speedy localization of posts. The project addresses a critical need for the successful implementation of the strategy for capacity-building in provinces and maximization of internal revenues. With modest inputs it should make a lasting impact over a large area of public administration. Toward the end of the second year (1988), the project will be reviewed to assess its success and the need for further technical assistance in this or other related areas.

3. Linkages

29. The Government has recently taken more interest in UNDP intercountry programmes, recognizing that this aspect of United Nations assistance can be a significant reinforcement to its development strategy. As a result, one of the specific initiatives to be taken will be to identify focal points within line departments that can maintain contact with and benefit from intercountry projects on a substantive basis.

30. During the fourth country programme period, Papua New Guinea intends to increase its involvement in a number of ongoing intercountry projects, such as Investigation of Mineral Potential of the South Pacific (RAS/81/102); Pacific Energy Development Programme (RAS/81/092); Regional Offshore Prospecting in East Asia (RAS/81/102); Strengthening Plant Protection and Root Crops Development, South Pacific (RAS/83/001); Civil Aviation Training Centre, Bangkok, Thailand (RAS/77/042); Civil Aviation Training Centre, Singapore (RAS/77/040); and Training and Research Programme in the Mangrove Ecosystems (RAS/79/002). Additionally, Papua New Guinea can expect to be involved in a number of new regional initiatives that address priority needs.

31. Projects included in the fourth country programme will be co-ordinated to the extent possible with other external assistance provided by Australia, New Zealand, the United Kingdom, Japan, Canada, China, the Netherlands, the Federal Republic of Germany, the World Bank, AsDB, the Commission of the European Economic Community (EEC), IFAD, the United Nations Children's Fund (UNICEF), the World Health Organization (WHO), the Commonwealth Fund for Technical Cooperation (CFTC) and other bilateral, multilateral and United Nations agencies providing assistance to Papua New Guinea.

32. The programme will also be co-ordinated as in the past with any related assistance provided by the South Pacific Bureau for Economic Cooperation (SPEC) and the South Pacific Commission (SPC).

33. A programmed reserve of $US 196,745 has been set aside to cover possible extensions to approved projects in training areas.

C. Unprogrammed reserve

34. An amount of $US 417,800 will be held in reserve to be used for contingencies and unforeseen cost increases during the fourth country programme period. This represents approximately 4.85 per cent of total available resources.

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Annex

FINANCIAL SUMMARY

I. ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

	$	$
A. UNDP-administered sources		
Third cycle IPF balance	262 895	
Fourth cycle IPF	8 356 000	
Subtotal IPF		8 618 895
Special Measures Fund for Least Developed Countries	-	
Special programme resources	-	
Government cost-sharing	-	
Third-party cost-sharing	-	
Operational funds under the authority of the Administrator	-	
UNDP special trust funds	-	
Subtotal, UNDP non-IPF funds	-	
B. Other sources		
Funds from other United Nations agencies or organizations firmly committed as a result of the country programme exercise	-	
Parallel financing from non-United Nations sources	-	
Subtotal, other sources		-
TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING		8 618 895

II. USE OF RESOURCES

Ongoing projects	1 166 350	
New project proposals	6 838 000	
Programmed reserve	196 745	
Subtotal, programmed resources		8 201 095
Unprogrammed reserve		417 800
TOTAL USE OF RESOURCES		8 618 895
