

2. DEVELOPMENT CONTEXT



2. Development context

2.1 Country Overview

16. Papua New Guinea is the largest of the Pacific Island nations, both in terms of population, estimated at some 6.1 million, and in terms of land mass, covering approximately 460,000 square kilometers. Around 87 per cent of the population lives in rural areas of Papua New Guinea's varied and rugged terrain that supports an extraordinary range of ecosystems and biodiversity, most of which are not accessible by road. The country has a rich and unique cultural and ethnic diversity, with some 800 languages spoken by a population distributed over the mainland and the many islands. The population is forecast to grow to more than 11 million by 2050. Currently 40 per cent of the population is under the age of 18.
17. The country's level of human development remains low and has, in some areas, deteriorated over the recent years. In 2006, Papua New Guinea's Human Development Index (HDI) ranked at 139 out of the 177 countries and territories surveyed (Human Development Report 2006). The HDI, reflecting 2004 data, includes the following main indicators relating to Papua New Guinea: (i) Life expectancy at birth - 55.7 years; (ii) Adult literacy rate - 57.3 per cent; and (iii) GDP per capita - US\$2,543.
18. A large part of the rural population, and to a lesser extent, the urban population relies for their livelihoods on forest exploitation, fishing, hunting and subsistence agriculture. Weak infrastructure, weak social service delivery mechanisms, marketing difficulties as well as low government and civil society capacity reduce the possibilities of alternative livelihood solutions as well as access to (renewable) energy schemes.
19. Progress toward the MDGs has been slow and, according to the 2004 MDG Report, Papua New Guinea is unlikely to achieve any of the seven goals (the 8th goal was not considered in the 2004 Report) and few of their targets by 2015. Furthermore, while the supporting environment was considered 'potentially favorable' for attainment of the goals of the Medium Term Development Strategy (MTDS), and 'fair' for the policy and legislative environment, it is rated as 'fair' to 'weak' for implementation capacity. The Report also considered data and monitoring capacity as being 'fair' to 'weak' for all seven MDGs, thus highlighting the considerable challenges for both achieving the goals and monitoring progress towards them. Hence the strengthening of monitoring systems has been included as a cross-cutting intervention.
20. During the first 15 years of independence (1975), 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 134/1,000 to 72/1,000 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 (64/1,000) and very high maternal mortality (370/100,000). Poverty rates remain high, with an estimated 30 per cent of the population below the poverty line. According to a Department of Education (DoE) partial survey results in 2006, the average Primary Net Enrollment Rate is 36 per cent in 11 provinces.
21. The Study on Orphans and Vulnerable Children in 2005 (UNICEF) examined the situation of children, youth and women in Papua New Guinea and has highlighted areas that need addressing in order to meet their basic human rights. For example, the study showed that 68 per cent of women live in violent homes; however this is as high as 90 per cent in some communities in the highlands provinces. Many girls in Papua New Guinea are at risk of Commercial Sexual Exploitation, and one-third of all sex workers are under the age of 20. Eighty per cent of the population is yet to have their births registered, and 22 per cent of children reside away from their biological parents. Seventy five per cent of children who come in conflict with the law experience police abuse.

22. The low absorption of school leavers into the formal employment sector and chronic unemployment for young people underline the challenges of creating economic opportunities for the increasing numbers coming onto the labor market, and for those already out of work. This has contributed to a serious deterioration in law and order and has created a negative human rights situation, with increased incidence of violence and with particular impact on women and girls. This situation has contributed to a worsening environment for national and international investment with disproportionately high costs for security protection.
23. Poor economic management of the economy in the 1990s led to the decline of key economic indicators. The economy contracted in all but two years between 1995 and 2002. This failure to stabilize macroeconomic conditions and poor expenditure decisions led to under-funding of key activities, with negative impact on service delivery, infrastructure development and maintenance. This situation was further aggravated by Papua New Guinea's susceptibility to natural disasters (volcanic eruptions, tsunamis, water level rises (e.g. atolls of Bougainville) and by civil conflict (e.g. Bougainville).
24. Papua New Guinea is rich in natural resources, particularly minerals, timber, fisheries and potentially oil and gas. If these resources are effectively utilized, they hold tremendous promise, both in terms of economic growth as well as human development. However, poor natural resources management and failure to apply environmental good practices, particularly in the forestry, fisheries and mining sectors led to over-exploitation and environmental degradation, with serious threats to long-term sustainability of these vital resources, as well as unemployment for an increasing population.
25. However, in the past four years, the economic climate in Papua New Guinea has improved and growth is projected to continue mainly due to improved macro economic policies and spurred by the prediction that commodity prices will remain high. Prudent fiscal policy, improved budgetary performance, lower interest rates and an appreciation of the exchange rate of the Papua New Guinea Kina (PGK) against major currencies as well as an increase of revenues due to rising world market prices for minerals such as copper and gold have contributed to a more favorable economic environment development. These improvements were used in the 2005 and 2006 budget for ongoing reductions in debt through repayments and funding for key priorities outlined in the national development plan, the Medium Term Development Strategy (MTDS).

2.2 Development challenges

26. Papua New Guinea now faces the challenge of sustaining these improvements, accelerating longer term structural reform processes, addressing problems of poor service delivery systems and confusion over functional and financial responsibility between national and provincial entities, and confronting the HIV and AIDS pandemic. All this must take place in a context of fast growing population forecasted to reach to 11 million by 2050. The country also faces the challenge of implementing a sustainable development strategy which provides education, health, employment and income generating opportunities while ensuring the optimum use of Papua New Guinea's natural, financial and human resources for present and future generations.
27. Papua New Guinea is facing increasing poverty and has a large unfinished human development agenda. Its population of approximately 5.3 million is growing at 2.7 per cent per annum while the labour force is growing at 2.6 per cent per annum. GDP growth has been negative for much of the 2000s and per capita income has declined significantly (according to the World Bank, 70 per cent of the population live on less than US\$2 per day and 42 per cent on under US\$1 per day). Crime has been increasing for many years, due partly to the lack of jobs and government's limited capacity to satisfy rising expectations of service delivery. The net result has been a worsening environment for investment.

2.3 Development Cooperation

28. International development assistance plays an important role in Papua New Guinea's economy with a total estimated Official Development Assistance (ODA) in 2005 of 12.8 billion Papua New Guinea Kina. Estimated ODA from Australia, the prominent donor in PNG for 2005 - 2006 was AUD\$ 492.3 million, which represents about 18 per cent of the Papua New Guinea total annual budget (2006). Other major donors are Japan, the European Union, the Asian Development Bank (ADB), the World Bank and New Zealand. During 2006, the Australian Agency for International Development (AusAID), the New Zealand Agency for International Development (NZAID), the European Union (EU), and the Asian Development Bank (ADB) has been preparing their development cooperation strategies for their respective programming cycles. The World Bank will prepare its Country Assistance Strategy in 2007. A major contributor to the health sector is the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM).
29. On its part, the UN system will have an estimated \$117,756,000 mainly from UNDP, UNICEF, UNFPA, WHO, UNV, UNAIDS, UNHCR, FAO, UNESCO, ILO and UN HABITAT over the period of 2008-2012. The bulk of UN support has been provided to governance, health, education, the environment and HIV and AIDS. Non-governmental organizations (NGOs), both national and international, are important development partners in Papua New Guinea and are involved in all sectors. Faith-based organizations (FBO's) (mainly church and mission organizations) are responsible for supporting about 50 per cent of all health and education facilities, with partial funding from Government.
30. External assistance is provided largely in the form of technical assistance, with a relatively small proportion devoted to operational expenses and capital projects. Recently, there has been a shift to the provision of funds to national programmes through sector-wide approach (SWAp) mechanisms. This has been the case with support to the Law and Justice Programme and the Health Sector Improvement Programme, whereby funds are channeled through and managed by the appropriate sectoral departments. A SWAp arrangement is planned for the education sector.
31. Government capacity to coordinate and manage external assistance has been weak although relatively effective coordination mechanisms between donors exist. UN system support to strengthen aid coordination and management capacity within government departments is envisaged in the UNCP.