

Chapter 2

Background

Introduction

2.1 The Independent State of Papua New Guinea (PNG) is a Pacific country that includes the eastern portion of the island of New Guinea. With over 800 distinct languages, PNG is one of the most culturally diverse countries in the world. Most of its approximately 7.5 million people live in rural and coastal areas.

2.2 PNG is rich in natural resources. The economy is concentrated in the agricultural, forestry and fishing sector, which engages most workers; and the resources sector which accounts for the majority of export earnings and Gross Domestic Product (GDP). Despite these natural resources, PNG remains a developing country. GDP per capita in PNG was US\$2331.6 in 2015 (compared to US\$61,979.9 in Australia in 2014). PNG currently ranks 158th out of 188 countries on the United Nations Human Development Index (HDI). PNG was ranked 128th of 173 countries in 1994.¹

2.3 The Department of Foreign Affairs and Trade (DFAT) Performance Report for PNG in 2014-15 provided an overview of the development challenges facing PNG:

Over three million people – or 40 per cent of the population – remain poor and/or face hardship:

- Malnutrition rates are high (45 per cent of children stunted and 14 per cent wasting).
- Around 80 per cent of the population reside in traditional rural and remote coastal communities and secure their livelihoods from subsistence farming, fishing and small-scale cash cropping.
- Life expectancy is only 62 years (compared with 60 years in 2005) and infant mortality is 47.3 per 1,000 live births (compared with 51.5 per 1,000 in 2005).
- Women and girls suffer unacceptably high death rates related to pregnancy and childbirth, and the majority experience sexual and family violence.
- It is estimated that around 15 per cent of the population has some form of disability.²

1 UNDP, *Human Development Report 1994*, p. 94.

2 Department of Foreign Affairs and Trade, *Aid Program Performance Report 2014-15 – Papua New Guinea*, November 2015, p. 4.

2.4 Despite its development challenges, PNG is recognised to have maintained a stable democratic system with regular elections, an independent judiciary and a free media.³ A constitutional monarchy, PNG has three levels of government - national, provincial and local. Members of the National Parliament are elected from 89 single-member electorates and 22 regional electorates. The regional electorates correspond to PNG's 20 provinces, plus the Autonomous Region of Bougainville and the National Capital District. Members from regional electorates also serve as provincial governors. Each province has its own provincial assembly and administration.

2.5 The PNG Government's aims for development are long term and ambitious. The National Strategic Taskforce's *Vision 2050* indicated PNG's aim to improve its ranking in the United Nations HDI to among the top 50 by 2050 'through the creation of opportunities for personal and national advancement, as a result of economic growth, smart innovative ideas, quality services and a fair and equitable distribution of benefits'.⁴

Australian aid

2.6 PNG was administered as an Australian territory from 1945 to 1975 when political independence was granted. Australia has provided aid assistance to PNG since its independence. Supporting a stable and developing PNG has been perceived as a priority by successive Australian governments. Initially, nearly all aid was provided as budget support directly to the PNG government. However, during the 1990s this budget support was replaced by program aid. The 1997 Simons Review into the Australian aid program noted that the reason for the shift was that 'budget support was not well used' and that 'programmed Australian aid can be more effective in the restoration of services and the building of capacity'.⁵

2.7 Most Australian aid to PNG is delivered through DFAT (following the integration of AusAID), however a large number of other government agencies also provide types of assistance to PNG. As the PNG economy has grown, its dependency on overseas aid has reduced.⁶ DFAT will manage an estimated \$477.3 million in bilateral funding to PNG in 2015-16. Total Australian Official Development Assistance (ODA) in 2015-16 will be an estimated \$553.6 million. The 2016-17 Budget included an estimated \$477.3 million in bilateral aid to PNG and an estimated \$558 million total ODA for PNG.⁷

3 For example, Mr Mat Kimberley, DFAT, *Committee Hansard*, 27 November 2015, p. 20.

4 *Papua New Guinea Vision 2050*, p. 74.

5 *Review of the PNG-Australian Development Cooperation Treaty (1999)*, 19 April 2010, p. 15.

6 *Submission 42*, p. 13.

7 DFAT, *Australian Aid Budget Summary 2016-17*, May 2016, p. 11. In 2015-16 and 2016-17, PNG's allocation includes \$49.4 million per annum under the Joint Understanding between Australian and PNG on Further Bilateral Cooperation on Health, Educations and Law and Order (Joint Understanding).

2.8 In 2015-16 and 2016-17, PNG's allocation includes \$49.4 million per annum under the *Joint Understanding between Australian and PNG on Further Bilateral Cooperation on Health, Educations and Law and Order* (Joint Understanding) signed in 2013. Under the Joint Understanding, Australia committed \$420 million of assistance to PNG over 4 years.

2.9 This makes PNG the largest recipient of Australian aid. Australia is also the dominant aid donor to PNG providing 68 per cent of the ODA which PNG receives. In 2015, Australian aid flows were estimated to represent 7 per cent of PNG's total official expenditure and this is expected to track towards 5 per cent by 2020.⁸ Australia's aid program in PNG has covered a broad range of sectors including:

- health;
- education;
- law and justice;
- transport infrastructure; and
- gender equality and women's empowerment.

2.10 The outcomes from the Australian aid program in PNG have been mixed. For example, the DFAT performance report for 2013-14 observed:

Good progress was made towards outcomes in health and HIV, and transport infrastructure investments achieved their targets for road rehabilitation. Modest gains were made from education and law and justice investments. The challenging political and security environment in PNG limited the achievement of outcomes for Australian-supported activities in the governance sector while deep-rooted socio-economic issues affected progress on programs designed to advance gender equality and women's empowerment.⁹

2.11 A DFAT assessment of Australian aid noted that six out of seven program objectives in PNG in 2013-14 were classified as 'at risk'. It stated:

The financial benefits from PNG's mining and petroleum assets have not yet translated into improved living standards for the majority of its citizens. Despite 14 years of consecutive growth, PNG has one of the lowest levels of GDP per capita in the region.¹⁰

Recent policies changes

2.12 At the PNG–Australia Ministerial Forum in December 2013, Ministers agreed that Australia would undertake an assessment of its aid investment in PNG. This

8 DFAT, *Submission 26*, p. 5. Mr Mat Kimberley, DFAT, *Committee Hansard*, 27 November 2015, p. 18.

9 DFAT, *Aid Program Performance Report 2013-14, Papua New Guinea*, September 2015, p. 2.

10 DFAT, *Performance of Australian Aid 2013-14*, February 2015, p. 23.

assessment was intended to better align Australia's aid with both governments' priorities and position the aid program to address key constraints to sustainable economic growth and equitable development in PNG. This assessment, titled *A new direction for Australian aid in PNG: refocusing Australian aid to help unlock PNG's economic potential*, made nine recommendations:

1. Align the aid program with shared political and economic objectives of Australia and Papua New Guinea.
2. Reprioritise 30 per cent of the current aid program, over the coming three years, to fund initiatives focused on private sector-led growth and aid for trade.
3. Maintain priority investments in improving health, education, infrastructure and law and justice systems.
4. Increase effective partnerships with the private sector.
5. Expand our support for good governance.
6. Maintain a strong program of support for building the capacity of PNG's police.
7. Expand support to women's empowerment.
8. Increase aid investments in Bougainville as a greater proportion of the bilateral PNG program.
9. Establish clearer, realistic performance benchmarks to assess both our and PNG's performance against set targets, and to drive mutual accountability for agreed actions.

2.13 The 2015-16 budget included reductions for Australia's overseas aid program, however aid funding to PNG was relatively unaffected. Bilateral aid funding to PNG went from \$502.1 million in 2014-15 to \$477.3 million, a decline of approximately 5 per cent.

2.14 In September 2015, DFAT released the *Aid Investment Plan – Papua New Guinea 2015-16 to 2017-18* which set out a new strategic framework for bilateral aid to PNG. The new *PNG-Australia Aid Partnership Arrangement 2016-17* was signed on 3 March 2016 to 'facilitate closer cooperation and promote more effective governance, better enable economic growth and enhance human development'.

Parliamentary inquiries

2.15 In 2003, the Senate Foreign Affairs, Defence and Trade References Committee tabled its report *A Pacific engaged: Australia's relations with Papua New Guinea and the island states of the southwest Pacific*. In November 2009, the committee tabled volume 1 of its report *Economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific*. Both of these reports addressed aspects of Australia's aid program in PNG.

2.16 In March 2014, the Senate Foreign Affairs, Defence and Trade References Committee tabled its report on *Australia's overseas aid and development assistance program*. The committee made a number of recommendations including that the Australian Government should keep Australia's ODA/Gross National Income (GNI) ratio above 0.33, that funding cuts made to Pacific nations in the 2014-15 budget should be reversed and that the Medical Research Strategy should be expanded.¹¹

2.17 The Joint Standing Committee on Foreign Affairs, Defence and Trade — Foreign Affairs and Aid Sub-Committee tabled its report *Partnering for the greater good* in June 2015. The report made a number of recommendations on facilitating private sector involvement in promoting economic growth and reducing poverty in the Indo-Pacific region.

Recent assistance

2.18 An El Niño weather pattern has created severe drought and localised frost conditions in PNG during 2015-16. This has had a major impact on water supply in many parts of PNG, with negative impacts on school operations, women's labour and villagers' health. Subsistence food supply, which many people are dependent on, has also been affected. A recent study identified 27 rural local level government areas where 'food supply from all sources (subsistence, purchased or donated) is very scarce or extremely scarce'.¹²

2.19 On 7 November 2015, the Australian Foreign Minister announced a package of assistance to assist 'communities and governments across the Pacific to prepare for and respond to the effects of El Niño'. This included \$5 million for PNG to:

- improve food security for around 500,000 people by providing seed stock for drought resistant crops;
- determine water and sanitation needs across at least six provinces in partnership with non-government organisations (NGOs);
- support vulnerable groups including children, women and the elderly through church health services;
- support the National Disaster Centre, NGOs and local churches to improve logistics and coordination efforts; and
- provide high quality mapping of the impact of the drought on water, vegetation and crops with the support of Geoscience Australia.¹³

11 Senate Foreign Affairs, Defence and Trade References Committee, *Australia's overseas aid and development assistance program*, March 2014, pp 93-99.

12 RM Bourke et al, 'Estimated impact of drought and frost on food supply in rural PNG in 2015', Development Policy Centre, *Policy Brief 11*, January 2016, p. 4.

13 The Hon Julie Bishop MP, Foreign Minister, 'Supporting Drought Efforts Across the Pacific', *Media Release*, 7 November 2015.

Budget and economic difficulties

2.20 The drop in global commodity prices and lower expected revenue, has led to 'a deliberate intervention by the [PNG] Government to cut down on expenditures and to support continued economic growth with expenditures prioritised towards the Medium Term Development Plan (MTDP) enablers particularly infrastructure due to its more immediate impact on future economic growth'.¹⁴

2.21 Concerns have been raised that these cuts to public expenditure could negatively impact development outcomes in PNG. DFAT noted that the PNG Mid-Year Economic and Fiscal Outlook (MYEFO) reported the impact of declining commodity prices on PNG's budget. Sharply reduced government revenues have placed PNG's fiscal position under pressure. DFAT expected that savings are likely to be made by reducing government expenditure on services, potentially putting pressure on already fragile sectors such as health and education.¹⁵

2.22 This appears to have occurred. Mr Paul Flanagan's recent analysis has highlighted deep cuts to core development sectors:

The 2015 [Final Budget Outcome] reveals that overall domestic expenditure reductions in 2015 amounted to 14.3%. However, the cuts in particular sectors are particularly worrying. The largest cuts were to health – an extraordinary within year cut of 37.1%. Infrastructure was cut by 36.0%, and Education by 30.3%. This pattern of cuts is the opposite of what the government claims are its priorities and the areas that would be protected. These are frightening figures for service delivery in PNG, as well as investment in human resources.¹⁶

2.23 Lower economic growth has also been predicted for the PNG economy. The PNG Government has forecast the economy will grow at 4.3 per cent in 2016. The Asian Development Bank, World Bank and the International Monetary Fund have also released projections which indicate the 'most likely scenario for PNG economic prospects in the short-term will be one of restrained growth'.¹⁷

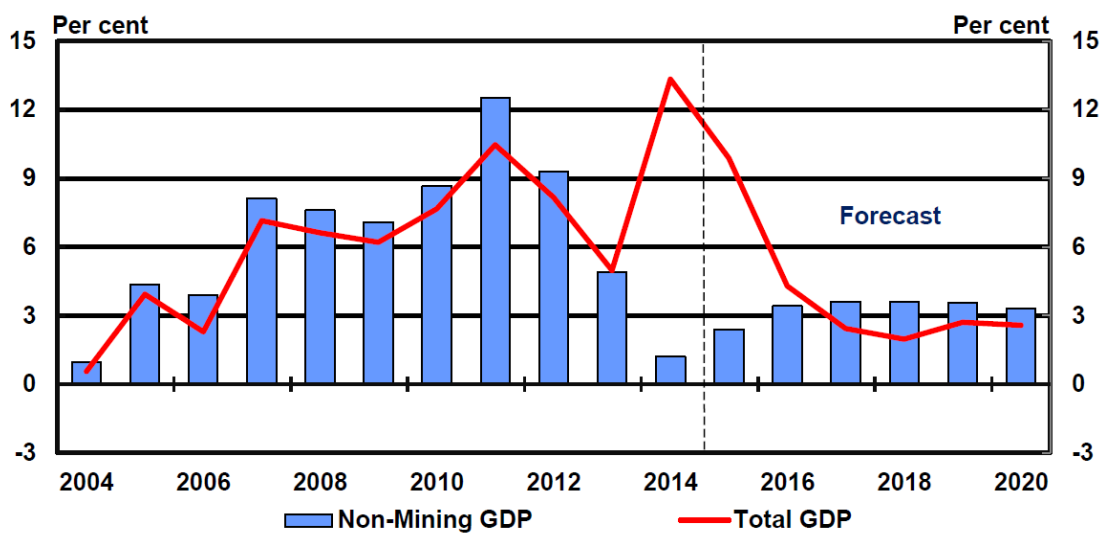
14 PNG Government, *Final Budget Outcome 2015*, p. 4.

15 *Submission 26, supplementary submission 1*, p. 1.

16 Paul Flanagan, 'PNG's frightening Final Budget Outcome', *Devpolicy Blog*, 4 April 2016, available at: <http://devpolicy.org/pngs-frightening-final-budget-outcome-20160404/> (accessed 21 April 2016).

17 Jonathan Pryke, 'Papua New Guinea's new economic reality', *Lowy Interpreter*, 20 April 2016, available at <http://www.lowyinterpreter.org/post/2016/04/20/Papua-New-Guineas-new-economic-reality.aspx> (accessed 21 April 2016).

Figure 1. PNG economic growth 2004-2020¹⁸



18 PNG Government, 2016 National Budget, Volume 1: Economic Development Policies, p. 12.

