



International Fund for Agricultural Development
Performance-Based Allocation System (PBAS)
Rural Sector Performance Assessment for 5 Pacific Island
Countries

PAPUA NEW GUINEA

February 2007

List of Acronyms

ARDSF	Agriculture and Rural Development Framework (ADB study)
ARDSF	Agriculture Research and Development Support Facility
BPNG	Bank of PNG
CIMC	Consultative Implementation and Monitoring Council
DEC	Department of Environment and Conservation
DFCD	Department for Community Development
DoE	Department of Education
DSGs	District Development Support Grants
GDP	Gross Domestic Product
GNI	Gross National Income
GoPNG	Government of PNG
HDI	Human Development Index
ICD	Integrated Community Development
ILGs	Incorporated Landowner Groups
INA	Institute of National Affairs
LLG	Local Level Government
LOCs	Land Owner Companies
MCC	Microfinance Competency Centre
MEP	Microfinance and Employment Project
MFI	Microfinance Institution
MTDS	Medium Term Development Strategy
MTDS	Medium Term Resource Framework
NADP	National Agriculture Development Plan 2007-2012
NAIS	National Agricultural Information System
NARES	National Agricultural Research and Extension System
NARI	National Agricultural Research Institute
NDAL	National Department of Agriculture and Livestock
NEP	National Education Plan
PML	PNG Microfinance Limited
PNG	Papua New Guinea
PNGFA	PNG Forest Authority
RDB	Rural Development Bank
RIC	Rural Industries Council

Papua New Guinea

Basic Country Data

1. Human Development Index (Value - 2006) ¹ :	0.523
2. HDI rank (2006) ¹ :	139
3. GNI per capita (2005) ² :	US\$660
4. GDP share of agriculture sector (2002) ³	33.1%
5. Total population (million, 2006) ²	5.9
6. Rural population as % of total (2006 projection) ⁴ :	86.5%
7. % of population living with less than \$1 a day ⁵	24.6% (1996); 39.6% (2002)
8. % of population living below the poverty line ⁶	37.5% (1996); 53% (2003)
9. Population below income poverty line	No data
10. Under-nourishment prevalence (% of total population) ⁵ quoting 1998-2000 data ¹ based on FAO data Children under 5 underweight ¹ based on WHO data)	27% 13% 35%
11. Income inequality - Gini index ⁴ based on 1999 data	0.509
12. Crop production index (1990=77.7;1999-2001 = 100); 2005 ³	108.2

	Average scores
A. Strengthening the capacity of the rural poor and their organisations	
(i) Policy and legal framework for rural organisations	3.7
(ii) Dialogue between government and rural organisations	3.7
B. Improving equitable access to productive natural resources and technology	
(i) Improving access to land	3.5
(ii) Access to water for agriculture – low score as 4 questions not relevant	2.1
(iii) Access to agricultural research and extension services	3.5
C. Increasing access to financial services and markets	
(i) Enabling conditions for rural financial services development	3.5
(ii) Investment climate for rural business	4.0
(iii) Access to agricultural input and produce markets	3.8
D. Gender issues	
(i) Access to education in rural areas	3.8
(ii) Representation	3.4
E. Public resources management and accountability	

¹ United Nations Human Development Report, 2006

² World Bank 2005 – www.doingbusiness.org

³ Asian Development Bank 2005 – Key Asia Pacific Country Indicators – www.adb.org

⁴ <http://hdr.undp.org/statistics/data/cty-f-PNG.html> - 2003 data projected to 2006

⁵ ADB (2006) Papua New Guinea Country Strategy and Program 2006-2010; www.adb.org

⁶ www.adb.org.papuanewguinea/country

	(i) Allocation and management of public resources for rural development	3.6
	(ii) Accountability, transparency and corruption in rural areas	3.8
Total score		3.6

A. Strengthening the capacity of the rural poor and their organisations

A. (i) Policy and legal framework for rural organisations – PNG – 2006

		5	4	3	2	Score
A	Government's attitude towards rural organisations	Proactive political and legal support	Certain efforts are made to create conducive conditions but they not very effective	Makes no effort to create the conditions that facilitate rural organisations' development	Opposes efforts of the rural poor to organize themselves	3.5
B	Rural organisations registering process	Quick and simple	Simple, but lengthy and not automatic	Slow, bureaucratic and costly	rural organisations are not formally allowed to form	3.8
C	Government's interference in the work of RO	No interference	Some interference in certain areas or activities	Strong interference; rural organisations cannot work independently	When rural organisations exist, they have been formed by the government	4
D	Extent to which rural organisations are representative of the rural population (including the poor)	RO represent well the economic needs of the rural poor	Various segments of the population are still not able to organize themselves	Rural organisations represent only a minority of the rural population	rural organisations do not represent the rural population	3.5
E	Rural organisations' role and strength	Well organized rural organisations	Not representative of all segments of the rural populations or lack capacities	Weak rural organisations	Passive role; rural organisations formed by the government itself	3.5
Combined score:						18.3

(a) Government's attitude towards rural organisations

At the national level, the apex rural organisation is the Rural Industries Council (RIC)⁷ which is dominated by the private sector) together with commodity-based rural organisations which include the: PNG Growers Association (mainly cocoa and coconut products focused); Spice Industries Council (with four regional Chapters), Forest Industries Association, National Fisherman's Association and the Cattleman's Association (Lae based). In addition, a range of local, district, and provincial level organisations and co-operatives exist addressing growers, agro-processing, marketing, micro-savings and credit, enterprise and community development.

The government's attitude to rural organisations varies and is dependent on the leadership and management, membership profile, perceived influence and the geographic spread of each organisation. It also depends on the attitudes of the respective Ministers and Secretaries of Agriculture and Livestock, National Planning and Monitoring (which includes a Department of Rural Development), Community Development and Inter-Government Relations.

There is little evidence of the Government and public agencies specifically promoting the establishment and development of viable rural organisations, with the exception of the Department of Community Development, and some Government-supported aid programs (e.g. the Community Development Scheme (all provinces)⁸ and Bris Kanda Rural Enterprise Development Program (Huon District)⁹. Viable, sustainable, rural organisations have consistently relied on the ongoing input of a

⁷ Rural Industries Council - http://www.fiapng.com/ric_vision.html

⁸ Brash, M. 2004. Chapter D1 Community Development. Interim Report. Asian Development Bank TA 4055-PNG Preparing the Agriculture and Rural Development Project, pp137-155.

⁹ Macfarlane, DC. 2006. Bris Kanda Rural Enterprise Development Programme. Programme Design Document. July 2006. NZAID, 195 Lambton Quay, Wellington.

core of committed private sector individuals. However, governments at all levels will generally encourage new, innovative and focused, self-help rural organisations – this may involve in-kind support in terms of collaboration with competent government personnel and public agency officers.

(b) Registering process

It normally takes 3 months to register a new rural organisation as an association under the Associations Incorporation Act, which includes one month for objections and two months for the processes of the Registrar of Companies within the Investment Promotion Authority. To register a new rural organisation as a non-profit company would take longer and the operation procedures would be more demanding in complying with the Companies Act (1997). Registrations can be made through national or provincial offices of the Investment Promotion Authority. Decisions are made in Port Moresby.

For most key business processes, the World Bank 'Doing Business' ranking system (which combines in country indicators measuring factors such as procedural, legal, employment and taxation regulations), indicates that PNG compares favourably with other Pacific nations but below the average for all 175 countries ranked.

(c) Government interference in the work of rural organisations

Government does not generally interfere in a major way with the work of rural organisations, but in most cases does not actively support their work either.¹⁰ In the case of the development of co-operatives, Government engagement has not always been helpful, and may have restricted the emergence of private sector entrepreneurial talent.

(d) Representativeness of rural organisations

The level of participatory and active representation that rural organisations afford rural populations varies. The influential RIC has a proportionately low representation of smallholder micro- and small-scale entrepreneur groups and a relatively low representation of rural based women. Smaller-scale rural organisations tend to have a broader base of membership in terms of gender and the scale of rural production at which members operate.

There are some examples of rural organisations being established to take advantage of donor-funded community or rural development programs. Some have genuine, long term, broad-based interests, but may also be narrower, depending on the people involved. Most local and provincial level organisations would benefit from professional training and mentoring in corporate governance, including processes to ensure broad-based representation of members' interests by executives and governing committees. Reticent or less experienced members of governing committees or boards can be over-ridden by more assertive, articulate and experienced members.

(e) Role and strength of rural organisations

The roles of rural organisations are extremely diverse and their strengths (membership, human capacity, service delivery capacity, financial resources) vary. At provincial and national levels, rural organisations involved with commodity production and marketing have significant representation for medium and large businesses, which differentiates PNG from the Solomon Islands and Vanuatu.

In PNG the RIC and other organisations have close links with national and regional chambers of commerce and with the Institute of National Affairs (INA). The INA is a national body that focuses on policy and transparency critique and advocacy and is funded by major private firms operating in the minerals and petroleum, agriculture and livestock, manufacturing and economic services sectors. Consequently rural and non-rural organisations seem more connected than in many other parts of the Pacific.¹¹ Despite significant Government and donor inputs over decades, the number of input buying

¹⁰ Ricky Kumung, freelance consultant –Institutional Specialist on 2003-2004 ADB TA 4044-PNG Preparing the Agriculture and Rural Development Project Study and on 2005 AusAID, Advisory Support Facility Functional & Expenditure Review Strategy for Government Agriculture Sector Agencies, February 2007, *pers.comm*;

¹¹ www.inapng.com

and / or marketing cooperatives that have survived more than 10 years is few.¹² Many local level rural organisations are weak in financial and operational management and have governing committees or boards which do not fully understand their roles and responsibilities.¹³

¹² Andrew McGregor, ADB TA 4055 Marketing & Enterprise Specialist, *pers. comm.*).

¹³ Macfarlane, DC. 2006. Bris Kanda Rural Enterprise Development Programme, First Quarterly Report of Programme Facilitator. July 2006, NZAID, Wellington).

A. (ii) Dialogue between government and rural organisations

		5	4	3	2	Score
A	Political process for dialogue	Well established at all levels	In place but unstable	Occasional, formalistic and not transparent	No process in place	3.5
B	Opportunities for exchange with government	Regular	Generally secure.	Very limited	None	3.5
C	Land tenure	Their views are taken into account and frequently acted upon	Land titling or registration is common.	Very limited. No influence at national level.	No influence	4
D	Formal land markets	Good and active	Function to some degree. Are used by some poor rural men and women.	Some representation	No representation	3.8
Combined score:						14.8

(a) Political process for dialogue

There is an established, government mandated, Consultative Implementation and Monitoring Council (CIMC) process of annual dialogue between government and rural organisations and civil society in each of the four regions of PNG. This process is too formal and in some cases intimidating for inexperienced representatives and is still difficult to access at regional level. Extending CIMC consultations, with increased funding, from regional to district and provincial levels would increase organisation representation at the national policy and programming levels.

The CIMC and RIC have cross membership of the other's organisation. This dialogue provides two way flows of information and consultation and generates an annual response from government and clearly influences policy.

(b) Opportunities for exchange with government

At Provincial and Regional levels, the CIMC process referred to above is the best opportunity both for rural organisations and members of the public, private sector and civil society to exchange views with government personnel.

Increasing community engagement - through a range of rural organisations - in the business of District-level Joint District Planning and Budget Priority Committees, while ensuring the local parliamentary member, as Chair, does not exert unreasonable influence on decision-making, is seen by many rural stakeholders as an important strategy to improve the quality of exchange with government.¹⁴

(c) Rural organisations influence

The RIC and CIMC, to the extent that they have rural organisations as members, have regular influence on government decision making. The potential for smaller organisations to influence local and Provincial level government – for example through the Joint District Planning and Budget Priorities Committee, or the National Executive Council - is influenced by the standing and capacity of the advocate and their capacity, or whether they are able to channel their organisational position through an apex body such as CIMC or RIC.

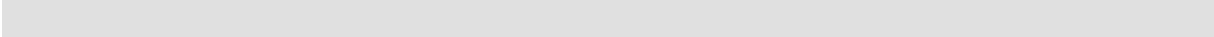
(d) Representation of rural organisations within executive or advisory government bodies

Individuals who are members of one or more rural organisations are represented on the Boards of a number of national policy agencies such as the National Agriculture Quarantine Inspection Authority, National Agricultural Research Institute, Coffee Industry Corporation, Oil Palm Industry Council, and the CIMC.¹⁵ In some cases appointment to those government bodies impacting on rural development

¹⁴ Williame-Igara, F. 2004. Chapter C5 Public Expenditure Management. Interim Report. Asian Development Bank TA 4055-PNG Preparing the Agriculture and Rural Development Project, pp 92-136 & CIMC 2006. Momase Regional Development Forum "Opening up the PNG budget: Improving budget effectiveness", 23-23 May 2006, Wewak

¹⁵ Geoff Fahey, Trukai Agribusiness Manager; Deputy Chair, Rural Industries Council; Board Member of NAQIA and Chair, Bris Kanda Rural Enterprise Development Programme, *pers. comm.*

is by the Minister of Agriculture and Livestock and other Ministers. In 2003-5, serious concerns were raised by sector stakeholders over the transparency of ministerial appointments of board members to the four commodity organisations¹⁶ and the failure to use objective, merit-based selection criteria.



¹⁶ Fingleton, J. 2004. Chapter C3 Legal and Regulatory Environment. Interim Report. Asian Development Bank TA 4055-PNG Preparing the Agriculture and Rural Development Project, pp 41-52.

B. Improving equitable access to productive natural resources and technology

B. (i) Access to land

Basic sector data¹⁷

Land resources:	
Total land area (square km):	462,840
Arable land (% of land area), ADB,2006 quoting 2002 data	0.5%
Permanent crop land (% of land area), ADB,2006 quoting 2002 data	1.4%
Occupied area	25%
Arable land (ha per rural person)	0.045 ha/person
Rural population density (people per km ²)	11

		5	4	3	2	Score
A	Access to land for rural poor households	The law guarantees secure, equal and enforceable land rights to all	Generally secure to a majority of rural poor households	A majority of rural poor households have some access but this access is often insecure	No access or insecure access	4
B	Access to land for women, indigenous populations and other vulnerable groups	The law guarantees secure, equal and enforceable land rights to poor men and women.	Generally secure.	Frequently, vulnerable groups do not enjoy the same access as other poor groups	No access or insecure access	4
C	Land tenure	Secure and enforceable land rights. The majority of land holdings are titled or registered.	Land titling or registration is common.	Owned land is sometimes registered; leased and rented land is mainly unregistered or leases are out-of-date	Property rights are not formally recognized by laws (or the laws are not applied) or are subject to easy termination or diminution.	3.5
D	Formal land markets	Function effectively	Function to some degree. Are used by some poor rural men and women.	Functioning to some degree but largely inaccessible to the rural poor	Not accessible to the rural poor. Informal markets are either absent or limited in scope	2.5
E	Regulation for the allocation and management of common property resources	Clear and equitable	Concrete efforts to improve the regulation are currently made by the government	Vague, unclear and largely unimplemented	No regulation; open access to common property resources	3.5
Combined score:						17.5

(a) Access to land

The large majority of Papua New Guineans have some degree of access to land under customary laws, and there are no "landless farmers" per se. Land access issues are therefore more to do with increasing pressure on good agricultural land. In densely-populated valleys in the highlands, in particular, population increases are putting increasing pressure on useable land resources, and on the customary mechanisms for allocating access.

The land area of PNG of 463,000 square kilometres, 27% of which is occupied, supporting a rural population of over 4 million people.¹⁸ There is an extremely diverse range of natural environments due to large variations in landform, rainfall and altitude, and though it may appear that PNG has high potential for agricultural development, there are many serious constraints. Approximately 70% of the land area has very low to low potential for most food and cash crops, while only 7% has high potential. Expansion in the land area used for agriculture has been limited, while the rural population has doubled in the last 30 years, resulting in increasing pressure on productive land. Migration into

¹⁷ ADB (2006) Papua New Guinea Country Strategy and Program 2006-2010; www.adb.org

¹⁸ Hanson, L.W., Allen, B.J., Bourke, R.M. and McCarthy, T.J. (2001). Papua New Guinea Rural Development Handbook. Land Management Group, Research School of Pacific and Asian Studies, The Australian National University, Canberra.

more favoured agricultural areas is common, and a quarter of the occupied area carries population densities of over 100 people per square kilometre. The forest area declined from 317,500 km² in 1990 to 306,000 km² in 2000.¹⁹

(b) Access to land for women, indigenous populations and other vulnerable groups

Women are the principal gardeners in PNG and therefore the providers of food security. As land pressure increases and people exploit their potential to intensify production from existing areas, inevitably more distant areas are gardened. This increases the size of women's workloads in maintaining levels of food production. People who are re-settled following natural disasters, particularly volcanic eruptions, can be allocated inadequate areas of land per household following negotiations between government and customary landowners.

(c) Land tenure

Around 97% of land suitable for cultivation is covered by customary law and formal land title in these areas does not exist. The execution of customary laws, and allocation of user rights to extended households and individuals, is complex, and varies widely across the country. Disputes between clans over land-use rights are not uncommon. Some customary land groups, clans or sub-clans have voluntarily registered their lands with the Department of Lands and Physical Planning. Such registration usually records additional information on customary ownership of land, usage, occupation, access, succession and other rights.²⁰

Seventy seven per cent of PNG customary lands are forested and under the jurisdiction of the Forestry Act 1991.²¹ In PNG, the owner or title-holder to land is a group (sub-clan, clan or tribe), all identified as descendent from a common ancestor. These groups can be recognised under modern law as Incorporated Land Owner Groups (ILGs) or Land Owner Companies (LOCs). Traditionally, customary owners never considered their land as property, but as a domain for survival of land group members, past, present and future. Section 56a of the Act states that the PNG Forest Authority (PNGFA) may acquire timber rights from customary owners pursuant to a Forest Management Agreement between the customary owners and the PNGFA. The Act prevents customary land owners from having total control of the use of the resources that grow on their customary land.

The government intends to establish a voluntary land registration process intended for interested land owning groups to record the correct traditional owners of their land.

(d) Land markets

Customary ownership of land places major restrictions on land markets. In recent times the debate of whether traditionally owned land hampers private-sector development in the Pacific and in particular in Papua New Guinea has gained prominent press coverage.

Proponents for change either argue for:

- (i) the fundamental need for freehold land in order to achieve potential rates of economic growth or
- (ii) a comprehensive business enabling environment (consistent policy, maintained economic infrastructure, accessible and affordable telecommunications, quality business development services and information including market/marketing information) plus a steadily evolving land tenure system.²²

¹⁹ ADB (2006) Papua New Guinea Country Strategy and Program 2006-2010; www.adb.org

²⁰ J Fingleton, Pacific Islands Development law Specialist and Anthropologist, Bowraville, NSW, *pers comm.*, February 2007

²¹ Curtin, T and Lea, D. 2006. Land titling and socioeconomic development in the South Pacific. Pacific Economic Bulletin, Volume 21, Number 1, Australian National University and American University of Sharjah.

²² (http://clubs.anu.edu.au/clubs/PNG_Canberra_Students_Association/documents/KSI%20Conv%202006/KSI-JimFingleton01JUL06-mb.pdf).

Proponents of (ii) argue for mutually satisfactory agreements which resolve both the issues of traditional landowner groups, and their desire to maintain control over their land, and the needs of investors to be able to invest confidently in natural resource development projects in order to secure an adequate return on investment.

Credit providers in PNG will lend to:

- (i) investors leasing customary lands in registered arrangements over commercially realistic time frames and
- (ii) customary land owners as individuals, ILGs or LOCs, with a good business background and credible business plans linked to reliable markets, seeking to develop their registered customary lands.²³

Certainly in the case of the latter scenario, banks will not lend to the same extent as they would if the same land was freehold, but they will lend.

(e) Regulation for the allocation and management of common property resources

The Department of Lands and Physical Planning is under-resourced to provide an efficient land administration service. This includes providing competent provincially-based mediation services at the local level to assist adjacent customary land owning groups in achieving negotiated settlements of previous disputes regarding land, forest and marine resources ownership and rights to use such natural resources.²⁴

²³ Robin Fleming, Bank of the South Pacific, 2005, *pers comm*.

²⁴ Brew.L, 2005. Legal and Regulatory Specialist. AusAID Advisory Support Facility. Agriculture Sector Agencies FER.

B. (ii) Access to water for agriculture

Basic sector data

Water resources:	
Irrigated land (as % of crop land)	7
Per capita water withdrawals (m ³ /rural person): Per capita water withdrawals (m ³ /urban person, ADB 2006, 1987-97 data):	No data 28 m ³ /person/yr
Water withdrawals as percentage of renewable water resources (%):	very low

		5	4	3	2	Score
A	Government strategy for water resources management	Clear and equitable	In place. Provides an integrated framework for equitable water resources allocation.	May be in place but is not used effectively for the allocation of water resources	Does not exist or does not adequately recognize the importance of agricultural water. Does not highlight the need for an equitable allocation or water resources for agriculture	2.2
B	Government pursuit of the water resources management strategy	Active	Has made major efforts to improve the management and allocation of water resources for rural poverty reduction	The strategy is not used effectively to manage the allocation of water resources.	The strategy is largely ignored	2.2
C	Policy on participatory irrigation development and management	Clear and equitable	Clear and transparent	Vague and non transparent.	No policy in place	Not relevant to PNG at this point
D	Establishment of representative agricultural water user institutions	Appropriate legal framework in place	Established but do not all function well	Some water user institutions in existence. Legal recognition.	Water user institutions either do not exist or do not have legal recognition. When they exist, they do not adequately provide for representation of the rural poor.	N/R
E	Government's support to farmer-managed irrigation schemes	Full and active support	Full support	Some support, but vague and unfocused	No support	N/R
F	Rural women representation in water user institutions	Proportional to men	High percentage, but proportionately less than men	Women are under-represented	Women are rarely represented and particularly discriminated against in terms of access to irrigation water.	N/R
G	Pricing system for agricultural water use	Clear and equitable	Equitable. Covers the costs of operation and maintenance	May exist, but is either inequitable or inadequate to cover the costs of operation and maintenance	No pricing policy for the supply of agricultural water to the rural poor	2 urban water charges
Combined score:						6.4

Comments on guidelines: Informed persons indicate there is only one regular commercial irrigation operation in PNG and several smallholders involved in gravity fed and sometimes sprinkler irrigation for market gardening to supply Lae or Port Moresby markets. There are no government or private reticulated irrigation water systems and therefore no current demand for agricultural water user groups.

PNG generally has abundant rainfall and fresh water resources to support rural and urban livelihoods. However, there can be seasonal shortages in Central Province and in the Markham Valley as well as in coral atoll communities. In the Agriculture Sector surplus soil water is a bigger constraint to production than soil water deficit, particularly for the leading food crop of sweet potato.²⁵

²⁵ Bourke, RM. 2003. Water, Agriculture and Rural Villagers in Papua New Guinea. Department of Human Geography, Research School of Pacific and Asian Studies, Australian National University *In* Fluid Bonds: Gender and Water. Proceedings of Workshop, the National Institute of Environment, ANU, October 2003.

(a) Government strategy for water resources management.

In PNG, water policy immediately evokes a response focused on water supply and sanitation. The National Water Supply and Sewerage Act empowers a Water Board with ministerial appointees of public and private professionals from the natural resources, infrastructure and health sectors to primarily operate and maintain urban water supply and sanitation services. Secondly, the Water Board is to promote rural water supply and sanitation, ensure compliance with standards and finally advise government on sector policy and planning. The PNG Water Board and a state-owned enterprise, Eda Ranu, manage water supply and sanitation in urban areas. The balance of demand is nominally met by Provincial and local level governments. The Department of National Planning and Monitoring has responsibility for sector budgeting as well as water sector policy issues. 32% of rural people have access to safe water (compared with 88% in urban areas - ADB 2006). Under the Environment Act 2000 (which has incorporated the objects and purposes of the Water Resources Act 1982), standards for the protection of environment and water quality are specified, as is the empowering of the Department of Environment and Conservation (DEC) to regulate water resources, wastewater discharges and permitting of water use and discharge. The Department of Health is responsible for administration of drinking water quality standards. In short, the sector is highly fragmented.

The National Agriculture Development Plan 2007-2012²⁶ refers to utilisation of water resources but makes no reference to the sustainable management of water resources, nor to catchment management. Catchment management²⁷ along with biodiversity preservation, sustainable soil, water and forest resource management, pollution prevention, clean industrial technologies, demographic planning and local communities actively conserving their resources are the key elements of Conservation Policy promoted by DEC.

(b) Government pursuit of the water resources management strategy

Water resources management policy needs further development and direction from a clearly identified national body which seeks to balance the public health needs for community livelihoods, farm and non-farm business (small to large), and balances access to appropriate quantities of water of required quality with the need for sustainable natural resource and environmental management within a catchment and river basin context.

(c) Policy on participatory irrigation development and management

There is no current policy as it is not seen as relevant to the agriculture sector in Papua New Guinea. Nonetheless, pilot programs in the Markham Valley near Lae and the Laloki Valley near Port Moresby, as part of an overall catchment management pilot, should be considered.

(d) Establishment of representative agricultural water user institutions

There is evidence of some rural communities organising themselves to maintain private, donor or government-funded schemes either as a specific group or as community action group with multiple purposes. Agricultural water user groups are not generally relevant in the PNG context, with the exception of restricted areas where irrigation is required.

(e) Pricing system for agricultural water use

²⁶ National Agriculture Development Plan 2007-2012. Growing PNG's Future. Ministry of Agriculture and Livestock, Konedobu, Port Moresby. August 2006 Version.

²⁷ At the local level there are a number of encouraging developments. In 2006 the ADB (www.adb.org) funded an integrated catchment management model for Lake Kutubu involving Oil Search Ltd, the Southern Highlands Provincial Government, Lake Kutubu Local Government and WWF. Currently, another initiative is awaiting funding, involving a joint DEC-Queensland Sunwater / Department of Natural Resources Plan to pilot a Catchment Management Plan for the Laloki Catchment supplying water for hydropower, for consumption in Port Moresby, irrigated market gardening, agroprocessing and other business. The use of successful pilots of planning and management in Australia and Philippines has proven a powerful motivator of changed practice.

While it is likely individual farmers and market gardeners will increase their permitted use of irrigation close to the two main population centres, this is likely to involve individual and not group facilities. The case for charging for irrigation water where there has been no public investment in infrastructure would be difficult to support. In pricing water use, the National Water Board ensures that domestic users have minimal charges while higher volume, business users pay higher charges.²⁸

B (iii) Access to agricultural research and extension services

		5	4	3	2	Score
A	Development of pluralistic research and extension services	Government supports direct demand-led, pluralistic approaches	Encouraged by government	No coherent policy and only sporadic government support	Exclusive preserve of the government	4
B	Campaigns for girls' education	Active government campaigns	Some information campaigns on the importance of girls' education undertaken	Public campaigns either non-existent or sporadic	Poor farmers have no say	3.2
C	Extension service system	Equal for boys and girls	Has been improved; trying to extend its outreach to poor farmers	Weak; does not address the needs of poor farmers	Female-to-male ratio of net primary school enrolment in less than 70%	3.2
D	Women farmers access to extension services	Specific policies, strategies and mechanisms are in place to ensure it	Some policies are in place to ensure it	No strategies or mechanisms in place to ensure it	No strategy, policy or mechanisms to address gender gaps.	3.5
Combined score:						13.9

(a) Pluralistic research and extension services

The last 5 years has seen an increase in models for delivering research and extension services involving a pluralistic range of actors, including: national and provincial public agencies, public—private commodity organisations, private firms, individual contractors, NGOs and CBOs.

The NADP 2007-2012 defines priority program areas as:

- i. developing a public-private, multi-organisational and highly collaborative National Agricultural Research System;
- ii. production and packaging of high quality and relevant information and technologies as part of a NAIS which responds to agreed gaps;
- iii. mobilizing the National Agricultural Research and Extension System (NARES), with incentives from competitive grants, using the best available service providers, responsive to the priority needs of local level rural groups, women, youth and men, and linked through local government systems
- iv. human resource development and capacity building.

Key stakeholders in NARES will be:

- ◆ 19 Provincial Departments of Agriculture and Livestock;
- ◆ a reformed National Department of Agriculture and Livestock;
- ◆ private and NGO business development and technical service providers;
- ◆ the National Agricultural Research Institute (NARI) (established in 1997);
- ◆ commodity organisations (the Coffee Industry Corporation; the Cocoa Coconut Institute; the Oil Palm Industry Corporation; the Oil Palm Research Association;)
- ◆ the National Research Institute;
- ◆ small to large scale firms;
- ◆ vocational training organisations; schools and universities.

²⁸ PNG Water Board. 2002. Pacific Regional Consultation Meeting on Water in Small Island Countries. Country Briefing paper for Papua New Guinea. Sigatoka, Fiji, July 2002.

A recent AusAID funded Agriculture Research and Development Support Facility (ARDSF)²⁹ and other donor programs dovetail with the five NADP Program areas. ARDSF will strengthen stakeholder engagement in the NARES through providing opportunities for private and NGO organisations to bid for competitive grants along the research—extension—information—practice continuum and providing expanded tax incentives to support approved research-extension-infrastructure investments and new business development.

Well established church-based rural services are often extensive and effective. NGO services are significant, localized with an expanding network. Commodity organisations are moving more towards the use of contracted service providers and greater collaboration with other stakeholders. Well established donor support for private sector innovations in information, extension and training services, as well as for value chain improvement, is expected to continue.

(b) Priority setting for agricultural research and extension

NARI has had system of setting research priorities selected on the basis of a broadly constituted selection panel. Within research areas research proposals are selected on the basis of their rank determined by a combination of the following factors:

- (i) capacity to successfully execute the research
- (ii) the potential impact of the research outcomes on a unit/farming system; and
- (iii) the likely level of adoption.

Quality socio-economic research is required to better understand rural client's decision making processes. Very few other research organisations attempt objective prioritization.³⁰

Substantial experience in responding to community training and skills development priorities has been built up through donor supported programs, working closely with local government and private service providers. Notable in this regard are the ADB Smallholder Support Services Pilot Project³¹ and the University of Vudal Integrated Agriculture Training Program.³² A further existing program, the Agriculture Innovations Grant Facility, will be expanded over the next 5 years under ARDSF to encourage public, private and NGO entities to compete for funding for applied research, extension and training.

(c) Extension service system

In the last 5 years strong evidence has emerged that there are better options available than the under-resourced and demotivated public extension system, including several innovative community, private sector and donor supported initiatives. However, there is much still to do. A number of aspects of effective extension practice elsewhere that are only weakly developed in PNG include:

- i. participatory approaches to understanding rural people's priority issues;
- ii. taking a commodity-chain approach to extension
- iii. extension workers spending a high proportion of time in the field ;
- iv. use of quality information in highly graphic formats;
- v. cash or in-kind contributions by beneficiaries/clients,
- vi. widespread use of local practitioners, or leader farmers, to promote proven technologies/practices at local level and
- vii. monitoring impacts using a range of collaborating stakeholders.

The absence of an affordable network of telecommunications that reaches into every LLG is a major constraint for not only agricultural extension work, but for rural livelihoods in general.

²⁹ <http://webdomino1.oecd.org/dcd/notification.nsf/aa09aafb2966ecccc1257007004499ab/60e6018979587dbfc125715e002af28f?OpenDocument>

³⁰ Hancock, I. 2004. Chapters D5-6. Extension and Rural Training and Research and Development. Interim Report. Asian Development Bank TA 4055-PNG Preparing the Agriculture and Rural Development Project, pp 225-256.

³¹ Milligan, K. 2005. Smallholder Support Services Pilot Project (Loan No. 1652-PNG). End of Mission Report of Pulbic Sector Reform Specialist. PNG Government, Asian Development Bank.

³² UniQuest.2005. East New Britain Integrated Agriculture Training Program 2002-2005. Completion Report for AusAID PNG Incentive Fund.

(d) Women farmers access to extension services

IN 2000, the National Agriculture Council endorsed a policy of providing affirmative support for women in agriculture and this was reflected in the establishment of a Women In Agriculture Development Unit within the National Department of Agriculture and Livestock. However, this unit had limited effectiveness.

Successful rural development programs involving NGO, private and public collaboration have shown that women's access to extension services can increase from virtually nil to 30% of engagements in less than 5 years by ensuring program managers deliver services which directly respond to women's needs and that planning removes, as much as possible, easily foreseeable impediments to their gaining equitable access to extension opportunities.

C. Increasing access to financial services and markets

C. (i) Enabling conditions for rural financial services development

		5	4	3	2	Score
A	Role of financial services in the rural development process	Government development plans fully recognize the important role of financial services and provide appropriate and practical policy direction.	Government development plans (including PRSP) recognize the importance of a well-functioning rural finance sub-sector	Government development plans make general supportive comments on the important of rural finance, but these are not operationalized into practical policies and guidelines.	Their role is not adequately recognized in government policies (including PRSPs)	3.2
B	Provision of rural finance services	Mainly by private sector operators	Government direct participation in rural finance operations is reducing steadily. The goal is for a provision mainly by private sector operators.	Financial-sector liberalization has advanced but the government still plays a significant role for publicly owned rural banks and credit schemes	Government has made no effort to liberalize and commercialize the rural financial market.	3.7
C	Legal framework for the promotion and regulation of rural finance	Appropriate framework to promote and regulate rural savings and credit cooperatives, MFIs and other community-based operators	The central bank and finance operators cooperate actively to establish a legal framework for semi-formal and informal rural finance operations covering both savings and credit activities	A legal framework for the registration, regulation and supervision of the member-owned and locally-based financial institutions is inexistent	The role of cooperatives, microfinance institutions and community-based service providers is ignored	4
D	Inspection and supervision arrangements covering rural non-bank financial operators	Effective arrangements covering rural finance activities are becoming operational	The central bank developing own capacity and supports alternative arrangements.	Appropriate arrangements missing	Inspection and supervision ignored	3
Combined score:						13.9

(a) Role of financial services in the rural development process

Rural entrepreneurs having access to competent business development services, and the capacity to secure credit for creditworthy proposals for finance to support their equity, is a key element of effective rural development. There is a lack of consensus on the scale of the micro-enterprise sub-sector in PNG. The ADB Microfinance and Employment Project (MEP) has estimated that PNG has 851,000 micro-enterprises, of which 33% require credit to achieve their plans - amounting to a credit demand of US\$61 million or about K190 million.³³

PNG's Medium Term Development Strategy gives high priority to economic growth, with agriculture and rural development in the forefront. However, the levers to be pursued in developing agriculture focus on infrastructure, extension and law and order. Little emphasis is given in this context to the need for rural financial services, although improving access to microfinance is noted as a priority in the context of supporting the urban informal sector. In the forward budget of the MTDS, the main focus in the rural finance sector is on reform and recapitalisation of the Rural Development Bank (RDB), as well as the ADB supported Microfinance and Employment project.

The Bank of Papua New Guinea (BPNG) 2006 September quarter figures³⁴ show total cumulative private sector lending from commercial banks at K2182M, other depository corporations at K2524M, finance companies at K121.6M, savings and loans societies at K128.6M, microfinance organisations at K4.1M and the Rural Development Bank (RDB) was K4984 million. Only one of a number of microfinance institutions (MFIs) is reporting to BPNG. This MFI increased its lending from 0.6 to 4.1M

³³ Prins, H. 2004. Chapters D3&4. Rural Financial Environment and Rural Financial Services. Interim Report. Asian Development Bank TA 4055-PNG Preparing the Agriculture and Rural Development Project, pp 200-224.

³⁴ BPNG. 2006. September Quarterly Economic Bulletin and supporting statistics.

in the 12 months prior to September 2006. The reforming RDB has called in many non-performing loans, reducing lending from 68.4M in September 2004 to 22.9M two years later. The September 2006 private sector borrowing from commercial banks was apportioned as follows: agriculture, forestry and fisheries 5.1%; manufacturing 5%; transport 8.4%; buyers, processors, exporters 7.38%; wholesaling 2.6%; retailing 12.04%; hotels, restaurants, business services and utilities 43.77%; building 7.25% and mining 7.13%.

(b) Provision of rural financial services

Commercial bank outreach into rural areas, and especially into the smallholder sector, has been very limited to date. To the extent that normal collateral and business plan requirements are met, private banks will lend to small investors down to about K50000³⁵, but there has been little incentive for banks to aggressively target small borrowers in remote rural areas – which includes most of the country. The Rural Development Bank (RDB) is another significant player, although this institution, like many of its counterparts in other countries, has struggled to be financially viable in the past, or to adequately service the bulk of the rural clientele. The RDB is currently undergoing deep reforms, with donor and government support, and may emerge stronger as a result. Much of the funding for coffee purchase is provided by offshore buyers and most nucleus estate oil palm development is also funded from overseas.³⁶

Microfinance also does not have a strong past record in PNG, but has developed significantly in the past few years. Two specialized microfinance banks – PNG Microfinance Ltd (PML), currently with operations in Western Province, Port Moresby, Milne Bay and East New Britain, and Wau Microbank (Wau and Lae), have recently been registered, and both have seen rapid growth in their portfolios.³⁷ PML has secured significant capitalization from PNG Sustainable Development, the IFC and Bank of South Pacific. Both of these microfinance institutions appear to be approaching organisational sustainability. A microfinance program in Bougainville (established with AusAID support) is also looking to formalize in the near future. Informal and semi-formal savings and loan societies are relatively widespread in the country – some are quite large and are particularly important for the provision of savings services. The well established East New Britain Savings and Loans Society is also considering registering with the Bank of PNG. The Lutheran supported Putim na Kisim NGO MFI appears to be sustainably managed, relying on peer and village pressure to achieve repayments on time. The same applies for the Personal Viability Grass Roots organisation in Morobe LLG.³⁸ In 2004, MFIs registered with the Microfinance Competence Centre (MCC) had 16000-17000 borrowers or about 6% of the Section A. ADB MEP estimate.³⁹

Smallholders, if they aggregate into a registered Land Owner Group or a Land Owner Company, can improve their capacity to borrow for viable commercial investments, including from commercial banks. In East New Britain, the Savings & Loans Societies and the Rural Development Bank have contracted the University of Vudal based Integrated Agriculture Training Program to provide basic business and enterprise performance improvement training to new borrowers and for the cost of this to be built into micro and small scale loans—reducing the risk for both borrower and lender.⁴⁰ Improvement in satellite based telecommunications and law and order in remote areas would remove some of the fundamental obstacles preventing MFIs establishing rural branches.⁴¹

(c) Legal framework for the promotion and regulation of rural finance

³⁵ Prins, H. 2004. Rural Financial Environment and Rural Financial Services.

³⁶ McGregor, A. 2004. Chapter D2. Marketing and Enterprises. Interim Report. Asian Development Bank TA 4055-PNG Preparing the Agriculture and Rural Development Project., pp156-198.

³⁷ John Popau, Wau Microbank, February 2007, *pers comm.* & Peter Cusack, International Finance Corporation, Port Moresby, February 2007; *pers comm.*

³⁸ Ewa O'soso, Senior Program Development Officer, Bris Kanda Program, *pers comm.*, May 2006

³⁹ Prins, H. 2004. Rural Financial Environment and Rural Financial Services.

⁴⁰ Hosea Turbarat, Manager, Kairak—Vudal Community Resource Training Centre, East New Britain, June 2005, *pers. comm.*

⁴¹ Trudi Egi, Manager Lae Branch Rural Development Bank, August 2006, *pers. comm.*

In recent registrations of PNG Microfinance and the Wau Microbank, the central bank has shown a degree of flexibility in supporting of expansion of rural finance services, although a comprehensive framework for promotion, registration and regulation of rural savings and credit institutions is not established (see below (d)). The Interim Report of the ADB TA 4055 Agriculture and Rural Development Strategic Framework (ARDSF) of July 2004 concluded an appropriate legal framework for financial services should:

- (i) introduce an acceptable customary land registration system;
- (ii) improve the availability of land as collateral for finance;
- (iv) establish an appropriate nationwide personal identification system;
- (v) establish legal frameworks for microbanks; microfinance and NGOs and Cooperative Societies to provide financial services and
- (vi) establish a deposit protection system for banks, microbanks and savings and loans societies.

(d) Inspection and supervision arrangements covering rural non-bank financial operators

Lack of Central Bank and / or Bank of Papua New Guinea inspection and supervision of the RDB, a government-owned institution subject to its own Act, which is autonomous in the regulation of its internal affairs and subject only to audit by the Auditor-General of PNG and Ministry of Finance surveillance, has been a key factor leading to its insolvency in 2004. A rigorous reform and restructuring program has seen political interference decline and management performance improve markedly since 2004.

The government has supported rural credit via NDAL, which supported a K10 million Smallholders Agricultural Credit Scheme, as well as via annual District Support Grants for local members. Both have consistently had very poor loan repayment performance. Many of these schemes have been administered through the RDB. Many loans were given as directed to political supporters rather than the candidates with the most creditworthy proposals.

The MCC is working closely with the Bank of Papua New Guinea to establish a regulation and supervision framework for microfinance. In 2004 the ARDSF team, following a rapid inspection, raised the following concerns with respect to microbanks in addition to C. above:

- (i) Loan interest rates are high, equivalent to those charged by finance companies;
- (ii) savings interest rates are low, equivalent to those paid by the commercial bank sector;
- (iii) projections are very optimistic;
- (iv) what will be the basis for devolution of ownership to the community and what is to prevent a few large entrepreneurs taking control and moving away from the micro-savings and micro-loan orientation of the bank?

Successful bank and non-bank loan performance in PNG and elsewhere in the Pacific is strongly correlated with an established culture of saving before borrowing.

C. (ii) Investment climate for rural business

Basic sector data

SME establishment:
Cost to register a business (% of GNI per capita): 26.4%
Number of procedures to start up a business: 7

		5	4	3	2	Score
A	Private rural business sector development	Government has made major efforts to encourage private traders to open a business, and to support the development of SMEs	Government is making efforts to encourage private traders to open a business, and to support the development of SMEs, but more needs to be done	Government efforts to encourage private traders to open a business, and to support the development of SMEs are weak	The policy and institutional framework effectively discourages the emergence of rural private business with legal status	4.0
B	Development of liberalised and private-sector-led markets	Government has made major efforts to encourage the development of liberalized markets	Government is making efforts to encourage the development of liberalized markets, but more needs to be done	Government efforts to encourage the development of liberalized markets are weak	The policy and institutional framework effectively discourages the development of liberalized markets	3.5
C	Procedures for registering a SME or private trading business	Procedures are fast, simple and transparent and do not involve bribing of government officials	Procedures are not very quick, simple or transparent and occasionally involve bribing of government officials	Procedures are slow, complicated and costly and often involve bribing of government officials	Procedures are extremely slow, bureaucratic and costly. Applications are often turned down and bribing of government officials is necessary.	4.2
D	Laws and regulations for proper and efficient development of liberalized and private-sector-led markets	Necessary laws and regulations have been adopted and most are properly enforced	Most necessary laws and regulations have been adopted, but some are not properly enforced and commercial courts are slow and bureaucratic	Many necessary laws and regulations do not exist, or, when they do exist, are often not enforced	Most necessary laws and regulations do not exist, or, when they do exist, are not enforced	4.2
Combined score:						15.9

(a) Private rural business sector development

The private sector accounts for 75-80% of consumption in producing GDP, 60-65% of local credit demand, the majority of fixed investment, at least 80% of formal paid employment and all self-employment.⁴² More than 90% of private enterprises and micro enterprises are informal enterprises⁴³. In the PNG context numbers of workers usefully define the scale of enterprises: micro-enterprise (1–5 workers); small enterprise (5–25 workers); medium enterprise (25–100 medium) and large (> 100).

The private business sector is assumed to comprise: (i) a very conservatively estimated 120,000 well-established micro enterprises (i.e. sales up to K40,000 per annum); 12,000–15,000 small enterprises (permanent commercial enterprise: sales up to K600,000 per annum); 3000-3500 medium scale businesses and 700-800 large businesses (ADB TA 4055, 2004).

In 2006, according to World Bank data (www.doingbusiness.org/Explore) taking into account a total of 175 economies, PNG has the following rankings in regards to ease of: doing business (57); starting a

⁴² Review of 2006 BPNG Quarterly Economic Bulletins.

⁴³ The total value of exports in September 2006 was K 3157 million--23.6% higher than for the corresponding quarter in 2005 (minerals 64.5%, crude oil 19.5%, agricultural/marine and other non-mineral exports 11.8% and forestry exports 3.9%). The private sector has driven exports from US\$3420 million in 1995 to \$9922 million in 2005. Imports have increased from \$1620 to \$4665 million (ADB 2005). Using March 2002 as a base 100, employment growth by sector over the ensuing 30 months was: retail 5.1%; wholesale 46.2%; building 21.7%; transport 10.1%; agriculture, forestry and fisheries 19.5% and finance and business 15.1%.

business (69); dealing with licences (102); employing workers (19); registering property (64); getting credit (101); protecting investors (33); paying taxes (91); trading across borders (52), enforcing contracts (88) and closing a business (97).

Doing business in PNG is easier than average for the region except for procedures and time dealing with licences and regulations, procedures and the cost of paying taxes.

(b) Development of liberalized and private-sector-led markets

Through the Investment Promotion Authority (IPA), which liaises with government agencies in the agriculture, forestry, fisheries and natural resource-based tourism sectors, the Government actively supports the delivery of quality information to potential investors. The IPA, which includes high profile private sector representation on its Board, operated an effective international market promotion. The Government has supported commodity price stabilisation schemes but this has been discontinued. GoPNG offers incentives to the productive sector. Tax incentives are not fully utilised by tax paying organisations in the agriculture sector, less so in the mining and petroleum sector.

Incentives for rural business apart from mining and petroleum include reductions in income assessable for income tax through investment in: approved research and extension projects (150%); approved road and other economic infrastructure maintenance and construction (1.5%); tourism export market development (200%), a reduced maximum 20% income tax rate for 10 years on new agricultural investments over K1 million; tariff exemption on inputs for the tourism industry not produced in PNG.⁴⁴

The period 2003 to date has seen disciplined fiscal management with both public debt and budget deficits steadily reducing. New debt has arisen only in areas of high priority, bank interest rates have been stabilizing at affordable levels, interest rates and the kina currency have remained stable, public sector “rightsizing” has occurred and there have been improvements in public expenditure management.

Many of the impediments to business and issues raised by the private sector membership of the Institute of National Affairs (INA) in a 2002 survey⁴⁵ still hold, they being:

- (i) law and order – protection of property and personnel;
- (ii) political uncertainty and lack of focus on policy rigour and consistency;
- (iii) corruption;
- (iv) lack of availability of skilled labour;
- (v) high cost of inputs and inadequate telecom, transport and electricity competitiveness.

In 2006 an INA commissioned NZ Institute of Economic Research Report⁴⁶ clearly showed that PNG, in comparison with Asian competitors, had uncompetitive revenue/total costs of production ratios.

(c) Procedures for registering a SME or private trading business

All business enterprises are required by law to register with the Investment Promotion Authority within the Department of Trade and Industry as either a sole trader, partnership, business group or a company. Company registration requires standard information on formation, names and addresses of directors, shareholders and if appropriate the Company Secretary.

Much less information is required for the other entities. A non-citizen will require IPA clearance and approval. The Internal Revenue Commission requires all registered businesses to comply with:

⁴⁴ Ministry of Finance & Treasury 2006 Budget

⁴⁵ ADB. 2004. Chapter 2 Enabling Private Sector Investment for Growth. . Interim Report. Asian Development Bank TA 4055-PNG Preparing the Agriculture and Rural Development Project, p37.

⁴⁶ Duncan, I; Layton, B; Nixon, C and Wear, S. 2006. Papua New Guinea Agriculture: Issues and Options. Report by NZ Institute of Economic Research for Papua New Guinea Institute of National Affairs. Funded by PNG Sustainable Development Limited.

- (i) GST registration if turnover exceeds K100000 pa;
- (ii) income tax file number registration;
- (iii) group tax-group employer registration and
- (iv) business services payments registration.

A SME employer is required to register with the National Provident Fund if there are 20 or more employees. All forms of business registration require submission of a basic annual return. Under the Companies Act 1997 an audit is specifically required if there are: (i) >100 employees or (ii) > 20 shareholders or (iii) >K5M company assets.⁴⁷

(d) Laws and regulations for proper and efficient development of liberalized and private-sector-led markets

The Investment Promotion Authority has a reputation for reasonably prompt service and the client responsiveness of the Internal Revenue Commission is steadily improving. The poor state and the excessive cost of telecommunications impedes the efficiency with which the private sector and regulatory bodies as well as all involved in rural development communicate.

Price controls are only imposed on a few essential commodities. The corporatisation of the government's services to the fisheries and forestry sectors (through the National Fisheries Authority and the PNG Forest Authority) has improved service delivery although allegations of political interference in management decisions continue. Reform and restructuring of NDAL and 9 other national government agencies involving service delivery to the Agriculture Sector following a comprehensive Functional and Expenditure Review requires National Executive Council approval and action. Corruption in several commodity organisations, some charging excessive and uncompetitive producer levies, has not been dealt with under the law. This is in part due to the under-resourcing of the Auditor-General's Department and partly due to lack of political will. By Pacific standards, PNG has strong chambers of commerce with a long tradition of encouraging regulatory efficiency and member compliance. as well as a strong Institute of Directors. PNG's World Bank Doing Business indices in regards to disclosure, director liability, shareholder capacity to sue and investor protection are above average.

⁴⁷ John Clarke, Kapi & Clarke Accountants, Lae, February 2007, *pers. comm.*)

C (iii) Access to agricultural input and produce markets

Basic sector data

Market liberalization:	
Index of economic freedom (http://www.fraserinstitute.ca/economicfreedom)	5.6 (102)
Regulatory framework quality indicator (http://info.worldbank.org/governance/kkz2005/mc_table.asp):	-0.86
Agricultural inputs:	
Annual fertilizer use (Kg/ha of cropland 1997-1999):	15 kg/ha
Number of tractors per 100 ha of arable land:	0.55
Agricultural raw materials imports (% of merchandise imports) based on NADP 2007-2012 Balance of Trade in Agriculture p17	(11%)
Roads:	
Highways (km):	19,300 km
Road network density (km of roads per km ²):	0.042

		5	4	3	2	Score
A	Market liberalization	Government has substantially liberalized markets. Markets operate basically free of market distorting government control	Significant efforts by government to liberalize markets. Market distorting monopolies, subsidies and quotas reduced	Efforts to liberalize markets made by government, but to a limited extent	No efforts made to liberalize agricultural markets. Government controls most or all input and produce markets	4
B	Private sector role in agricultural input and produce markets	Wide diversity of capable market service providers.	Markets mainly commercially based or in private sector hands	The private sector plays a role, but government intervenes as a monopolistic buyer and through subsidies, taxes, price bands or quotas	Mostly a government monopoly, often at fixed prices. Government policies do not seek to promote the emergence of private-sector-led markets	4
C	Market access roads	Government has a major programme to develop and rehabilitate market access roads	Government is investing in the development and rehabilitation of market access roads	Government is not investing sufficiently (relative to its capacity) in constructing or rehabilitating market access roads	Government programme places little emphasis on the construction and rehabilitation of market access roads	3.5
D	Capacity of poor rural producers to access markets	Well defined and adequately financed programme to support easy and equitable access of the rural poor to markets	Some efforts are made by government to support easy and equitable access of the poor rural producers to markets	Little or nothing is done by government to support the capacity of poor rural producers to access markets	Government does not support the capacity of the poor to organize for improved market access	3.5
Combined score:						15.0

(a) Market liberalization

Few of the policies that usually distort prices and incentives in the rural sector exist in Papua New Guinea. The exchange rate is market-driven; there are no export crop price supports; tariffs on imported sugar, pig and chicken meat are steadily reducing in line with WTO requirements; bank lending is not subsidised; the only significant export tax is on round logs; inputs are not subsidised and there is minimal government involvement in input or output marketing. Removing or reducing Ministerial influence in the appointment of commodity organisation and other statutory board memberships which affect rural development would enhance transparency and promote liberalization.

A recent innovation is the NZAID and GoPNG supported Huon District Bris Kanda Rural Enterprise Development Program where 10 years of priority investments will be determined by a Governing Committee which will be private sector dominated.⁴⁸

(c) Market access roads

In many parts of the country, basic access, by road or water, is a major constraint to development. Nevertheless, compared with 5 years ago, GoPNG, with donor support, is much more focused on prioritising and increasing its investment in road and water transport infrastructure maintenance and development.

This is embodied as one of the 7 key areas of the Medium Term Development Strategy 2005-2010⁴⁹ where rehabilitation and maintenance of transport infrastructure receives 22.8% of the 2006 development budget, second only to basic education – 25.4%. 29% of the transport budget is devoted to the Highlands Highway, 19% to maritime infrastructure and the remaining 45% to other primary and feeder roads and bridges.

Improvement in feeder roads at district level can potentially increase marketed coffee by 30%. Increased use of draught and pack animals, tractors and trailers and small river barges will assist remote areas. PNG's terrain and high rainfall leads to higher costs per kilometre for road construction and maintenance than in many Asia Pacific countries. The operation of the PNG Roads Authority which has donor and private sector contributions has been compromised by GoPNG not delivering on its financial commitments.

(c) Capacity of poor rural producers to access markets

As noted above, the topography of PNG is highly challenging, and most of the poorest rural areas are located in inaccessible areas with limited market access. There is a good correlation between access to services, including markets, and income from agriculture. Forty nine percent of all people at district level have very poor, poor or moderate access to services, as defined in the Rural Development Handbook (2001). The database that underpins this Handbook should be updated at least every 5 years to better inform development planning decision making.

⁴⁸ Bris Kanda Inc.2006. Rules of Association registered with Registrar of Companies, Investment Promotion Authority, July 2006.

⁴⁹ PriceWaterhouseCoopers. 2006. Budget Commentary 2006; www.pwc.com.pg

D. Gender issues

D. (i) Access to education in rural areas

Basic sector data⁵⁰

Education spending:	
Public expenditure on education (% of GDP)	2.3% (2000-2002)
Public expenditure on education (as% of total expenditures):	17.5% (2000-2002)
Participation in education:	
Adult literacy rate, 2003 (>15 yrs of age, UNDP HDR):	57.3% ⁵¹
Female primary net enrolment ratio:	69% (2002/3)
Girls-to-boys primary enrolment ratio (female as a % of male)	0.90(2002/3)
Girls-to-boys secondary enrolment ratio (female as a % of male):	0.79(2002/3)

		5	4	3	2	Score given
A	Policy framework for boys and girls' equal participation in primary and secondary education	Specific government policy in place, with accompanying strategies, mechanisms and incentives	Specific policy in place, with some accompanying strategies, mechanisms and incentives	A stated policy in place, but few strategies, mechanisms and incentives to ensure its implementation	No policy in place. No strategies, mechanisms and incentives to ensure equal participation	4
B	Campaigns for girls' education	Active government campaigns	Some information campaigns on the importance of girls' education undertaken	Public campaigns either non-existent or sporadic	No public campaign on girls' education	4
C	Primary and secondary school enrolment	Equal for boys and girls	Female-to male ratio of net primary school enrolment is between 90% and 100%; but less than 70% for secondary education	Female- to-male ratio of net primary school enrolment is over 70% but less than 90%	Female-to-mal ratio of net primary school enrolment in less than 70%	3.5
Combined score:						11.5

(a) Policy framework for equal participation

Access to education in rural areas is underpinned by two policies; the National Education Plan (NEP) 2005-2014 implemented by the Department of Education (DoE) and the Integrated Community Development (ICD) Policy implemented by the Department For Community Development (DFCD).⁵²

Central to both policies is gender mainstreaming and the goal of equity of access to opportunity regardless of gender. However, strategies and actions to remove impediments to equal opportunity require further development. NEP 2005-2014 primary education places strong emphasis on access, quality and management but not on retention. AusAID⁵³ and the European Union have been the key development partners in the Education Sector. Both policies allow for specific support for training teachers for specific localities where there are gender imbalances. The National Education Plan 2005-2014 5 aims to:

⁵⁰ United Nations Human Development Report, 2006

⁵¹ In the 2000 census when national average adult literacy was 54.4%, this was based on an adult male literacy of 59.5% and an adult female literacy of 49.5%. Within males in 2000, urban dwellers were 86.6% literate and rural dwellers were 55.2% literate. Within adult females, urban dwellers were 81.2% literate and rural dwellers were 44.8% literate. Rural males and rural females have 64% and 55% the literacy levels of their urban counterparts. Source: www.accu.or.ip/lrdbase

⁵² European Union Education Training and Human Resource Development Proram, February 2007, *pers. comm*

⁵³ <http://www.usaid.gov.au/country/default.cfm>

- Achieve Universal Primary Education (UPE) by 2015.
- Support Formal Vocational Education and Training (VET) through established Technical Colleges

The key challenges to achieving UPE are school student retention, teacher retention and cost-effective education delivery in remote locations. Some commentators argue that the only way the 2015 UPE target can be met is for education to be free so that net enrolments reach 100% and remain there throughout all elementary and primary school years⁵⁴, and also for teacher capacity, building and infrastructure to be further resourced. Others counter this with the argument that 100% retention of students or teaching another 300000 students through the primary system is unaffordable. Director of the National Research Institute⁵⁵ argues that stronger school performance monitoring systems that are able to better inform capacity building based on individual needs, rather than blanket resourcing approaches, would be more effective and use resources more efficiently. M&E which explains why boys and girls leave by school (for example due to fees being unaffordable, lack of parental support, school closures, absence of teachers and harassment) would guide better corrective action and more equal student participation. The cost of making primary education universal has been increased by the fact that education sector reforms have increased basic education from 6 to 9 years.

The ICD Policy reflects that new DFCD mandate as the focal government agency for informal education and the promotion of the informal sector generally. DFCD has unfortunately been traditionally largely disregarded by agriculture, forestry and fisheries agencies purporting to have a vested interest in rural development. This new ICD policy is in response to low youth and adult literacy rates, limited access to formal education, lack of income earning opportunities, increasing levels of poverty, conflict within families and communities, population pressures, gender inequality, rural/urban migration and the HIV/AIDS epidemic. The policy promotes community based responses to these issues and seeks to improve the engagement of community based organisations, non-government organisations and the churches in improving the effectiveness of community responses.

In achieving its objective of promoting the development and implementation of integrated community development programs with collaborating stakeholders there will be key action areas of:

- Strengthening community learning through community learning centres and networks, capacity building and removal of impediments to access to opportunities
- Mainstreaming HIV/AIDS awareness and practice change
- Building government capacity at national, provincial and LLG level to effectively engage in supporting community based learning and meeting the diverse needs of local rural people which efficiently uses resources across sectors
- Continuous mapping and monitoring of community development activities and learning of lessons to improve policies, strategies and future plans
- Continuously improving working partnerships with informed and active individuals, Provincial and District Administrations, LLGs, other National Agencies, NGOs, Churches, the private sector at all levels of scale and development partners to maximise the impact of the Community Learning and Development Centre approach.

The implementation of ICD policy will involve re-activation of, or support for, about 125 informal community non-formal vocational training centres (80% rural) run by church organisations (for example the Lutheran Development Service), NGOs (OISCA) CBOs (for example the Personal Viability groups) supporting priority youth and adult community skills development with the EU Education Training and HRD Program (2006-2011).

(b) Campaigns for girls' education

There have been no specific campaigns for girls' education in within the NEP. UNICEF⁵⁶, working closely with GoPNG, AusAID and the EU in the education sector, undertakes some programs which specifically or subtly promote girls education by:

⁵⁴ Thomas Webster, Director National Research Institute, www.postcourier.com.pg/20060217/focus.htm

⁵⁵ www.postcourier.com.pg/20060271/focus.htm

⁵⁶ www.unicef.org/png/media_3930.html

- (i) advocating for universal primary education and education for all; consistently using gender disaggregated data; and urging government and partners to review and consider strategic options for making primary education free to families arguing that user fees are the greatest barrier to universal access;
- (ii) supporting early childhood policy to stimulate early learning;
- (iii) modeling the child-friendly school approach in a selected number of schools, to ensure that schools are effective, healthy, protective, girl-friendly and inclusive of pupils, parents and communities in their management;
- (iv) supporting the training of teachers and other relevant officials to enhance the quality of teaching/learning and enhance a protective environment in schools;
- (v) supporting the Government to increase awareness on primary prevention on HIV/AIDS in schools to reduce adolescent risks and vulnerability to HIV/AIDS and
- (vi) promoting high achieving school age girls in academia and sport as role models to inspire other girls and their parents of the value of education.

Comprehensive reforms to the education system were prompted in 1993 by low enrolments, high gender disparities of enrolled students, regional / provincial disparities in service delivery and a curriculum lacking relevance to the needs of modern PNG. Concurrently community wide concerns over illiteracy were acted on.

In 1990, the government initiated the Literacy and Awareness Programme supported by the National Literacy and Awareness Secretariat. The ADB has funded a major Literacy for Life Program and AusAID, the EU and UN agencies contribute significantly to literacy development in the formal and non-formal sectors.⁵⁷ By 1996, there were a total of 393 adult programmes in eleven provinces which included a majority of women. These reforms and programs are associated with the following changes in education and gender equality indicators. It is not possible to determine whether any campaigns specifically focused on girls have influenced these data.

Indicator	1990 ¹	1998 ¹	2002 ¹	2004 ²	Comment
School enrolment, net primary female	60.80	74.77	74.25		Reintroduction of fees seems not to affect Grade 1 enrolments
School enrolment, net primary male	70.90	77.43	78.89		
Children reaching Grade 5				68	
Girls reaching Grade 5	58.90	68.19	49		Declines at Grade 5 possibly associated with re-introduction of fees
Boys reaching Grade 5	59.50	67.78	51		
Girls primary completion rate		50	52		
Boys primary completion rate		55	57		
Girls to boys primary	86		88		
Girls to boys secondary	59		70		
Literacy rate youth 15-24 yrs	68.6	66.7			
Literacy rate 15-24 yrs female	62.40	67.80	64.06	64.1	
Literacy rate 15-25 yrs male	74.40	77.70	69.13		
Female to male Literacy 15-24 yrs	83.87	87.3	92.58	93	

Sources: ¹ ADB Papua New Guinea Country Strategy and Program (2006-2010)

² UNDP Human Development Report 2006

(c) Primary and secondary school enrolment:

According to the above table net primary enrolments have risen by 13.55% (+1.1%pa) and 8% (.75% pa) for girls and boys respectively between 1990 and 2002. However the above data only indicates a 0.5% pa increase in primary completion for boys and girls over the period 1998-2002. While the ratio of girls to boys enrolled in primary school only increased by 2% from 1990 to 1998 it increased by 11% for the same period for secondary enrolments.

⁵⁷ http://www.accu.or.jp/litdbase/pub/pdf_cr05/03DB_

The fall in girls (-19%) and boys (-17%) completing Grade 5 in 2002 seems to indicate that the re-imposition of fees caused parents to remove their children almost regardless of gender.

D (ii) Women's representation

Basic sector data

Women representation:	
Year women received right to vote:	1964
Women in government at ministerial level (as % of total):	4%
Seats in lower house of Parliament held by women (as % of total):	0.9%

	5	4	3	2	Score	
A	Women right to vote and be elected	Allowed by legislation	Allowed by legislation to vote but limitations on the right to be elected	Allowed by legislation to vote but not to be elected	Not allowed by legislation	5
B	Government policies and institutional mechanisms to address gender gaps in local decision-making	In place. Government actively campaign to promote women representation	Some policies and institutional mechanisms in place, but public awareness-building is limited	Some policies adopted by government, but no strong strategy and no institutional framework or enforcement mechanism to address gender gap	No policy, institutional framework or information campaign to address gender gaps in representation and local decision-making	2
C	Mechanisms for rural women's participation in rural organisations	Rural organisations are non-discriminatory. Mechanisms are in place to support rural women's participation.	Rural organisations are non-discriminatory. Some attempts to remove barriers of entry for women.	No legal or statutory discrimination, but barriers of entry limit women's representation. Government is not opposed, but makes no effort to encourage women's representation	Women are de jure or de facto excluded from rural organisations. Government does not support women's representation in rural organisations	3.5
D	Women's participation in rural organisations	Broad women's participation. Women have often leadership positions	Broad women participation	Limited.	Minimal. Most rural organization are made up of men.	3
Combined score:					13.5	

(a) Women right to vote and be elected

While under legislation women have full rights to vote and be elected, the PNG electorate has elected 3 women to Parliament since independence in 1975.

Currently Dame Carol Kidu is Minister for Community Development, a Ministry now of equal status as Education, Health and Infrastructure.

Dame Carol, apart from being an excellent, lateral thinking Minister, is a role model to many women in public life. The combination of ICD policy and the Minister's communication and facilitation skills means that there is are good prospects for the "Productive Sector" Ministries to leave their sectoral, silo like thinking and engage in the broader issues of rural community development, in which all traditional, sectoral agencies can play a more active role at the local level of service delivery.

(b) Government policies and institutional mechanisms to address gender gaps in local decision-making

Currently all sector policies include provision for increased gender equity in employment opportunities, which includes the potential for participation in decision-making. Women in institutional and public-private forums ensure their voice is heard provided there is careful facilitation of forums.

The recently gazetted Integrated Community Development Policy probably has the strongest gender equity commitment of any government policy. Most government departments, including NDAL, could be more proactive in increasing the female/male ratio of employed personnel.

(c) Mechanisms for rural women's participation in rural organisations

- Experienced males in rural organisations actively encouraging greater female participation at the executive level and in the broad membership
- Experienced male and female members of organisations mentoring and supporting new members
- Active promotion of successful women in rural organisations as role models of competence, analytical thinking and assertiveness in public forums

(d) Women's participation in rural organisations

Women are more active in many rural organisations than is commonly acknowledged. This is particularly so for church based organisations where women are involved in dealing with trauma, vocational training of youth, promoting micro and small scale business, promoting local savings and loans groups.⁵⁸

Many men will say rural organisations dominated by women are more effectively run with less political diversions than those which are male dominated.

Women as heads of households or in partnership with their husbands often comprise 10-15% of the membership of commodity growers organisations (such as vanilla, cocoa).

⁵⁸ Brash, 2004. Community Development. Interim Report.

E. Public resources management and accountability

E (i) Allocation and management of public resources for rural development

Basic sector proxy indicator

Government effectiveness: [from -2.5 (low governance) to 2.5 (better governance) (2005)]	-0.96
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		5	4	3	2	Score
A	National development plans (or PRSP) and budget document	Emphasize the important role that the agricultural and rural development sector plays in poverty reduction and economic growth	Emphasize the important role that the agricultural and rural development sector plays in poverty reduction and economic growth	Some emphasis given to agriculture and rural development	Little emphasis given to agriculture and rural development	4
B	Sector policies	Consistent with the above analysis. Advocate an appropriate approach for reducing rural poverty and promoting broad-based growth	Not always consistent with the above analysis	Do not provide a strong basis for reducing rural poverty and promoting broad-based growth	Not appropriate as a basis for reducing rural poverty and promoting broad-based growth	4.0
C	Budgetary allocations to the agricultural and rural sector	Transparent, adequate and consistent with the policy framework	Not always consistent with the above analysis	Inadequate	Insufficient	3.5
D	Funds allocation to the sector	Promptly made available to the relevant ministries and agencies	May be subject to delays	Allocated funds to not conform to the allocations or are subject to significant delays.	Allocated funds are significantly less than the allocations. Made available too late to be used effectively.	3.5
E	Funds allocation to the lower levels of government	Funds do reach the lower levels of government	Funds do reach the lower levels of government	Not all the resources reach the lower levels of government, although an adequate proportion is envisaged	Allocations are heavily centralized at the upper levels of government. The few resources allocated to the lower levels do not reach there.	3.5
F	Financial management	Satisfactory. Financial or audit reports are prepared regularly and on time.	Broadly adequate, but the preparation of financial or audit reports may be delayed	Weak; financial and audit reports are prepared late	Very weak; financial reports are of low quality and are prepared irregularly and late; substantial delays in the preparation of audit reports	3
Combined score:						21.5

(a) National development plans (or Poverty Reduction Strategy Plan)

Priorities in the Medium Term Development Strategy 2005-2010 to achieve the goal of improved living standards include implementing an export-driven economic growth strategy and fostering rural development, poverty reduction and human resource development. In all of these, the primary importance of agriculture and rural development are acknowledged. In terms of expenditures, the seven core sectoral expenditure priorities, listed below in order of magnitude of expenditure allocation for the 2006 Budget⁵⁹:

Priorities for MTDS 2005-2010

Basic Education	25.4%
Rehabilitation and maintenance of transport infrastructure	22.8%
Primary and preventative health care	21%
Law and Justice	16.1%
Generation of income earning opportunities	8.6%
Development oriented adult education	1%
HIV/AIDS prevention	.4%
Other	4.8%

⁵⁹ PriceWaterhouseCoopers. 2006. Budget Commentary 2006; www.pwc.com.pg

Specific allocations to agriculture are contained within the “Generation of Income Earning Opportunities” category, and seem low given the emphasis on rural development that is present throughout the MTDS – however many of the other categories, and especially infrastructure, target rural areas. The MTDS also outlines key supporting policies and enabling environment measures focusing on political and policy stability; the rule of law; the business environment; protection of the vulnerable and disadvantaged; gender equality and protection of the natural environment.

The MTDS 2005-2010 is supported by a Medium Term Resource Framework which defines development and recurrent budget support over a rolling 3 year period. During the annual programming and budgeting cycles estimates are reviewed and revised.

(b) Sector policies

The National Agriculture Development Plan 2007-2012⁶⁰ has the goal of stimulating growth and sustainable development of the agriculture sector by purposeful:

- (i) underpinning of the MTDS;
- (ii) alignment of resources with identified priorities;
- (iii) planning and coordination;
- (iv) institutional arrangements and support and
- (v) promotion of food security.

In achieving these purposes a focus on the development objectives of reducing costs of production , improving quality for competitive domestic and export markets and increasing rural income earning opportunities are important development objectives.

(c) Budgetary allocations to the agricultural and rural sector

The 2006 Budget was K4829 million, down from K5266 million in 2005.⁶¹ Expenditure in 2006/2005 budgets was apportioned as follows: national agency expenditure, national level interest payments and transfers to CSAs 49.6%/52.4%; development expenditure 34.9%/35.1% and allocations to provincial governments 15.4%/12.5%.

In 2004 the National Department of Agriculture, Cocoa and Coconut Institutes, Fresh Produce Development Agency, National Agricultural Research Institute and the National Quarantine Inspection Authority received K21.6 million in recurrent funding. While the NDAL spends over three quarters of its budget on personnel, other organisations spend proportionately less on personnel and more on program implementation (for example the NARI spends approx. 45% on personnel). In 2004 GoPNG spent K8.8 million on development projects with the above organisations, as well as with the private sector operated Oil Palm Research Association.

With the gazettal of the new NADP 2007-2015, the most coherent sector policy since independence, recurrent and development allocations to the sector are expected to increase. There is scope to substantially improve the cohesion between agencies in annual planning, programming, budgeting and implementation and impact monitoring processes.

For completeness in the rural development sector, the recurrent and development budget allocations to the National Fisheries Authority, the PNG Forest Authority and the PNG Tourism Promotion Authority should also be included.

In 2006 K746 million was allocated to 19 rural provincial governments and to the National Capital District Commission. On the basis of ADB ARDSF analysis of provincial expenditure for 2002 it is expected these funds would have been expended as follows: District Administration (14.6%),

⁶⁰ The NADP has been influenced by: (1) the ADB supported 16 strategy Agriculture and Rural Development Strategic Framework of November 2004 which has two thrust areas— Community Enterprises and Livelihoods Development & Integrated Institutional Reform and Public–Private Capacity Building and (2) Expenditure Review of 10 Government Agriculture Agencies in August 2005.

⁶¹ Ministry of Finance and Treasury 2005 and 2006 Budget Papers and Supporting volumes.

Commerce, Tourism and Culture (13.1%), Economy (12.5%), Agriculture and Livestock (16.7%), Health (13.1%), Infrastructure (12.3%) and others (17.7%).

(d) Actual funds' allocations to the rural sector

Prior to the MTRF system there were often differences between actual payments and allocations made during the budget planning process for the previous financial year. While national level agencies like NDAL would receive 90% of what was agreed in the budget, provincial administrations might only actually receive 45-70% of their agreed budget.⁶²

This in turn affected funds expended through the District Administration and the Local Level Governments. LLG Presidents have been extremely vocal and often demoralised by the failure of the National Government to ensure they are properly resourced to execute their responsibilities under the Organic Law which guides decentralised service delivery.⁶³

(e) Funds' allocations to the lower levels of government⁶⁴

The 1995 amendment to the 1977 Organic Law specified the roles and responsibilities of the LLGs more clearly. It enabled the National Government to provide direct support to the district and LLG level through District Development Support Grants as well as channelling funds via provincial budgets. Provinces have variable revenue streams independent of national government such as taxes, mining and petroleum royalties and in some cases income from investments, which may include private sector joint ventures. LLGs have capacity to raise limited taxes and to borrow and make investments but currently generally lack capacity to do either.

(f) Financial management

Provincial Governments and LLGs, as well as many central agencies, need to apply well designed reforms which are focused on delivering effective and efficient services that respond to client's priority needs.⁶⁵

However, improved financial management is but one component. Practical measures of improving service delivery at lower unit costs include:

- (i) implementing all planned redundancy programs;
- (ii) introducing competency based capacity technical and management training and skills development of retained and new recruited staff who have more multi-function responsibilities (for example rural enterprise and supply chain performance improvement vs traditional subject matter specialists);
- (iii) introducing output performance incentives;
- (iv) contracting accredited private, NGO or other public service providers to deliver specific outputs. (This can reduce the cost of rural training to 15% of traditional DAL extension delivery as evidenced in the New Guinea Islands Integrated Agriculture Training Program and Smallholder Support Services Pilot Project⁶⁶). The expansion of the Provincial Performance Improvement Initiative linked with district/provincial

⁶² Williame-Igara 2004. Public Expenditure Management. Interim Report.

⁶³ Blackman, A and Kumung, R, Chapter C4 Institutional Analysis. . Interim Report. Asian Development Bank TA 4055-PNG Preparing the Agriculture and Rural Development Project, pp 55-89.

⁶⁴ At the sub-national level, Provincial Governments with a Provincial Executive Assembly, a Provincial Administration and Divisions of Agriculture and Livestock, Community Development, sometimes Fisheries, Commerce, Health and Infrastructure. This structure is repeated at the District level headed by a District Administrator—there is not a district level of governance, the District Administration is an extension of the provincial level of government.. At the LLG level of government the LLG Assembly is comprised of Ward Councillors and an elected President. The LLG administration, if fully funded, comprises a Manager; a Patrol Officer, and DAL, Education and Health Officers.

⁶⁵ Williame-Igara, 2004. Public Expenditure Management. Interim Report.

⁶⁶ Doorman, F and Macfarlane, DC. 2006. Farm Support Services Report. Solomon Islands World Bank Agriculture and Rural Development Strategy Study-unpublished.

level capacity building focused on improved planning, operational and financial management and simple performance monitoring should achieve measurable improvements.

E. (ii) Accountability, transparency and corruption in rural areas

Basic sector proxy indicators⁶⁷

Governance indicators:	
Corruption Perception Index [From 10 (highly clean) to 0 (highly corrupt) (Transparency International 2006)]	2.4
Voice and accountability [from -2.5 (low governance) to 2.5 (better governance) (2005)]	-0.05
Rule of law [from -2.5 (low governance) to 2.5 (better governance) (2005)]	-0.92
Control of corruption [from -2.5 (low governance) to 2.5 (better governance) (2005)]	-1.08

Kaufmann D., A. Kraay, and M. Mastruzzi 2006: Governance Matters V: Governance Indicators for 1996-2005.

		5	4	3	2	Score
A	Decentralization of administrative and fiscal authority	Full decentralization to the local level	Much has been done but some key sectors may be still dominated by central decision-making	A policy of decentralizing limited administrative authority to the local level exists	No effective policy in place	3.5
B	Institutional reforms and safeguards necessary to enhance transparency and accountability and to eliminate local corruption	In place	In place	Do not accompany the policy on decentralization		3.5
C	Local-level rural development services	Adequately staffed and funded according to local priorities	Staffed and funded according to local as well as central priorities	Staffed and funded according to centrally determined priorities	Inadequately staffed and funded	2.5
D	Attitude of locally elected representatives vis à vis their constituency	Responsive and accountable	Often responsive and relatively accountable	Rarely responsive and accountable	Unresponsive and unaccountable. Local elections not held or in a manner that offers little or no democratic choice to voters	3.2
E	Participation of rural poor in the planning of local development activities	Active	Some participation	Little participation	No participation. Rural poor perceive local government as a barrier to their progress.	3
F	Resources budgeted for local development activities	Used exclusively for these activities	Not always used for these activities	May be diverted for private gain by public officials	Often diverted for private gain by public officials or local elites	3.5
G	Benefits of local development activities	Accrue to rural poor people	May not always accrue to the rural poor	Accrue almost exclusively to local elites		4
H	Obligation by rural poor to pay bribes in order to access services or seek fair application of laws	Not necessary	Rarely necessary	Often necessary	Systematic	4
I	Sanctions against government officials who demand or accept bribes	Systematically sanctioned	Not always sanctioned	Rarely sanctioned	Not sanctioned	3
Combined score:						30.2

(a) Decentralization of administrative and fiscal authority

The 1995 provincial and local level government reforms attempted to use expanded decentralization to improve public service delivery. The reforms intended to shift additional responsibilities to local governments, increase government participation at the community level and distribute funds more evenly.

⁶⁷ Kaufmann D., A. Kraay, and M. Mastruzzi 2006: Governance Matters V: Governance Indicators for 1996-2005.

However, the nominal commitment to decentralization has not translated well into action, for the following reasons:

- (i) the new Organic Law for Provincial and Local Level Government was not backed up with appropriate capacity building in planning, programming and budgeting and management skills development at provincial, district and LLG levels of governance and service delivery;
- (ii) central expertise was not readily available in the provinces and provincial expertise was not readily available in the districts and LLGs. As discussed in D. the influence of national parliamentarians as District or Open Members strongly influencing and even controlling the district planning and action prioritisation process contradicts the principles of effective decentralized decision making and governance.

(b) Institutional mechanisms for enhanced transparency and accountability

The National Economic and Fiscal Commission is working closely with the Ministry of Treasury and Finance to achieve a harmonized, computerized, provincial-central financial management system in 2007.⁶⁸ Provided that this is backed up with adequate training and support of local level financial management staff, significant improvements should flow.

The Office of the Ombudsman is continuing to make independent investigations and bring to account people involved in malpractice in the public sector (this office withstood a challenge from the Government in 2005-6 to diminish its powers). Despite the decline in the World Bank “Control of Corruption” indicator from -.82 in 2002 to -.1.08 in 2005 (due this challenge and concentration of financial powers in the National Capital District Commission (NCDC)), people’s intolerance of corruption appears to have increased markedly and this is reflected in the press (for example 5000 people protested publicly over the NCDC incident).

Other measures to improve transparency and accountability could include

- (i) Improving the capacity of the Police and the Judiciary (more experienced lawyers and judges) to take on all necessary prosecutions and to process them more quickly
- (ii) Reducing the power of ministers to appoint board members
- (iii) Funding the auditor general and private sector professionals to undertake regular audits
- (iv) Have regular functional and expenditure reviews
- (v) Enforcing the Code of Leadership

(c) Local rural development services

As shown in the Rural Development Handbook, there are very large differences throughout the country in local rural people’s access to services. However, repeating this 2001 assessment might now show some improvement in access rankings. About 40% of the population have from “very poor” to “moderate” access to services – health, education, marketing. This and other objective diagnostic information obtained under the Public Sector Reform Program (major AusAID, ADB and World Bank support) has lead to new forms of direct central—LLG assistance in the form of Least Developed Area Grants. Furthermore, the MTDS and its MTRF which focuses on 7 key areas (see E(i)) is leading to a higher level of local level public investment than 5 years ago – community learning centres focused on informal youth and adult learning, rural clinics and HIV/AIDS awareness, basic education facilities and inspector support, community and district roads improvement programs.

(d) Attitude of locally elected representatives

There are 89 District Members and 20 Provincial Governors with widely differing attitudes to and experience in community engagement, governance, efficient service delivery, profitable business and critical analysis of problems and issues to support policy development. Many existing and aspiring parliamentarians have the following attributes which impede effective, sustainable local rural development:

⁶⁸ Statement by Minister of National Planning and Monitoring, Hon, Patrick Prutch to CIMC Momase Regional development Forum, May 2006

- Thinking only in time frames of one election to the next
- Commitment to reward constituents for their political support leading up to the last election
- Influencing how Joint District Planning and Budget Committees allocate the non-discretionary component of annual DSGs
- Making unobjective decisions on how to spend their discretionary component of annual DSGs

However, there are examples of elected members playing a positive role in supporting a co-ordinated and responsive service to their constituents

(e) Participation of rural poor in local planning

The reformed political structures outlined in the 1995 *Organic Law on Provincial Governments and Local-level Governments* (i.e. Local Level Government Assemblies and Joint District Planning and Budget Priorities Committees) have the potential to achieve independent decentralised decision making, provided that Ward Councillors and JDP&BPC members have broad-based interests and backgrounds, think independently and objectively and commit to action based on agreed and robust plans.⁶⁹ Whilst independent thinking of such members is steadily growing there is still a culture of subservience to the LLG President, District Administrator or Local Member. There are growing examples of communities demanding a stronger voice in local and district levels of decision-making. The new Integrated Community Development Policy, if properly resourced and implemented has good prospect for enhancing this process.

(f) Local financial resources expended in accordance with budgets

Given the substantial capacity building and improved monitoring of operational and financial management at national, provincial, district and LLG levels of governance, as well as the higher profile of the Public Accounts committee and the Public Sector Reform Management Unit, the incidence of significant deviation of expenditure from approved budget is declining. The key issue is ensuring the plans and supporting budgets developed at any level of governance, or in any organization, reflect true priorities of stakeholders, which proposed actions are prioritized and that funding is in accordance with the order of prioritization.

(g) Benefits of local development activities

District Support Grants for Local Members are valued at K80 million per annum and for Provincial Governors the allocation is K10 million⁷⁰ (i.e. equivalent to 12% of total allocations from National Government to Provincial Governments). There are good examples, for example where a Member has invested in supporting business development training through a competent local training organisation for new micro and small credit borrowers with measurable impacts on business performance. There are also disastrous examples – for example where K300000 was invested in a credit scheme managed by the RDB for party faithful to nominally develop vanilla and cocoa enterprises with no measurable development actually occurring.⁷¹ If DSGs were consistently expended on the basis of apolitical, broad-based stakeholder consensus of their economic and livelihoods development priorities, this would massively increase local rural development impact.

(h) Bribes and corruption

There appear to be gains and losses in dealing with bribery and corruption with the net result being a slight worsening of the overall situation based on the World Bank ‘Control of Corruption’ Index whereby the 2004 index of -.94 has declined to -1.08 in 2006. While corruption by senior public officer and politicians is viewed by local informed persons as being dealt with more expeditiously and harshly than before, there is a body of opinion that bribery and corruption is expanding at middle and lower levels of the public service. Police blatantly demanding cash instead of issuing parking tickets is an

⁶⁹ Macfarlane. 2006. Bris Kanda Rural Enterprise Development Programme. Programme Design Document.

⁷⁰ Ricky Kumung, freelance consultant –Institutional Specialist on 2003-2004 ADB TA 4044-PNG Preparing the Agriculture and Rural Development Project Study and on 2005 AusAID, Advisory Support Facility Functional & Expenditure Review Strategy for Government Agriculture Sector Agencies, February 2007, *pers.comm*;

⁷¹ Advisory Board members of the Kairak—Vudal Community Resource Training Centre, April 2005, *pers comm*.

example. Significant misuse of funds by more than 10 NDAL staff was discovered in 2005 but the issue was not comprehensively dealt with.

(i) Sanctions against the corrupted

Corruption is more openly covered in the private press, television and radio than 5 years ago. The INA, which is closely linked to Transparency International, maintains a vigilant watch of sub-standard governance through to corruption and makes regular and high profile public statements concerning its findings. Despite Codes of Leadership and merit based selection as government policy, tribal and language group connections still can influence, and even over-ride objective, merit-based decisions and appointments.

There is considerable strengthening of the law and justice system capacity to ensure the prosecution rate for criminal offences increases. This includes some high profile fraudulent behaviour that has gone unpunished in commodity organisations.

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