

INTRODUCTION

BY

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The 2001 Development Budget and the Public Investment Program (PIP) are framed consistent with the Government's development policy priorities and sectoral objectives and strategies which are further translated into programmes and projects by the respective Departments and Statutory Bodies. The PIP provides project details and financial cost forecasts for the projects according to their total cost and time duration while the Development Budget contains the financing details for projects funded in 2001.

The Government will continue to promote social and economic development by implementing major policy initiatives including the five priority development areas stipulated in the Medium Term Development Strategy (MTDS). In an attempt to effectively implement these sectoral policy priorities, the Government initiated the National Dialogue on Reconstruction and Development in November, 1999. It further was aimed to foster partnership and dialogue to promote good governance, transparency, and accountability in the Government while bringing development to the majority of rural and urban populations. The 2001 Development Budget is structured and is reflective of the recommendations emanating from these consultations like the National Dialogue on Reconstruction and Development and the National Development Forum (NDF), which is translated in the National Reconstruction and Development Charter Program. It is the priority commitment of the Government to continue to foster that partnership with the Provincial and Local Level Governments and the Private Sector through such mechanisms.

Development activities must be framed within the context of proper planning both at national, provincial and district levels so that the resources of the Government are not squandered but achieve tangible results for the benefit of every citizen. Such prudent planning at all tiers of government will promote and ensure sustainable development for the benefit of both the current and future generations. It is the responsibility of the current generation through their elected leaders to achieve that sustainable development.

The 2001 Development Budget testifies the continued commitment of the Government to ensure fair and equal treatment of all priority sectors as reflected in their respective appropriations. The Government is proud to announce that the appropriation under the Development Budget continues to increase annually irrespective of the margin of increment. The 2001 Development Budget provides to implement programs and projects at K1,051.10 million (approximately K1.1 billion), a significant increase of 10 per cent over the 2000 level. In relation to the total 2001 National Budget, the Development Budget represents 26.48 per cent of the budget outlay of K3,968.61 million (approximately K3.97 billion).

The increase accounts for the introduction of several programs and projects to achieve the objectives of the Government's development policy priorities. The programs and projects commanding funding in the 2001 Development Budget are those that support the Government's objectives for social and economic development with scope for wider beneficial impact, promotion of good governance, strengthening and rationalization of public institutions, poverty

alleviation, prevention and minimization of law and order problems, private sector promotion and job creation, sustainable development and environmental protection.

The K1,051.10 million Development Budget constitutes K390.8 million from the Government's own financing resources, K135.0 million from concessional loan facilities and K525.3 million in grants from the Government's development partners. One notable initiative of the Government is the provision in the Development Budget for an expected expenditure of K109.0 million for projects under the National Reconstruction and Development Charter Program. Some of the major on-going programs and projects receiving increased appropriations include the National Road Maintenance Program, ---- (any others).

The Special Support Grants (SSG) and the Provincial and District Support Grants (PSG & DSG) are retained in the Development Budget. This is to ensure that such funds are tied to specific projects that can be implemented and monitored to ensure that the expected benefits are being realized. Newly negotiated loan and grant-funded projects will be implemented in 2001. These are projects identified and prepared to support the development initiatives of the Government.

The existing mechanisms of the Government of the Government will be used in implementing the projects. A major proportion of the projects will be implemented by the National Departments while others will be implemented through the lower tiers of government as well as the NGOs, and churches. The private sector will be invited wherever appropriate to participate in the implementation process of the 2001 Development Budget. The Government will utilize the Consultative Implementation and Monitoring Council to ensure that the 2001 Development Budget not only implemented but achieving the desired outcomes. It is the duty of the Members of Parliament to also provide the necessary political direction in the implementation process of the Development Budget.

I, therefore, commend to the Members of Parliament both the 2001 Development Budget and 2001-2005 Public Investment Program.

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SUMMARY

The Public Investment Program (PIP) and Development Budget are instruments developed annually to translate Government development priorities into investment programs and projects. PIP contains project details including project objectives, project components and project areas as well as cost forecasts for the project duration. The Development Budget contains the financing details of appropriation like expenditure items and their cost estimates, financing sources, and the total project appropriation.

The PIP and the Development Budget for the period 2001-2005 and 2001 respectively are reflective of the initiatives of the National Government to foster economic and social development through consultation with all stakeholders including the Provincial and Local Level Governments, Private Sector, NGOs, and donor agencies.

The macro-economic framework in which the 2001 National Budget is structured is to achieve equilibrium in revenue and expenditure. The 2001 national Budget aims to support five key objectives of the Government, (i) stabilize the kina, (ii) strengthen the integrity of State institutions, (iii) improve quality and efficiency of public sector delivery in core areas, (iv) through privatization, reduce scope of public sector where its financial performance has been poor and where the private sector can improve service delivery, and (v) continue the support to peace restoration and reconstruction in Bougainville.

The 2001 Development Budget provides K1,051.10 million for projects, an increase of 10 per cent from 2000 and constitute 26.48 per cent of the total budget outlay of K3,968.61 million for the 2001 National Budget. In aggregate the increase in the Development appropriations make up 10 per cent as compared to 4.85 per cent increase in 2000 from 1999

The appropriation for 2001 is equivalent to 9.6 percent of GDP, comparing well with the 2000 GDP forecast of 9.3 percent. The increase complements the Government's strategy to increase the real value of resources directed towards development expenditures.

Implementation of several policy initiatives including the MTDS of the Government account for the marked increase in development appropriation for 2001. One notable initiative of the Government that results in this increase is the implementation of Reconstruction and Development Plan emanating from the National Development Charter on Reconstruction and Development. K109 million is appropriated under the Development Charter Program which consists of the following components:

1. Basic Services Improvement Package
 - District Aid Post Rehabilitation K13.4 million
 - District Primary School Infrastructure K13.4 million
2. Less Developed Districts Support Package K14.1 million

3. District Roads and Bridges Improvement Package K34.7 million¹

The initiatives, either in aggregate or collectively, aim to address the key areas as specified in the MTDS:

- Education services targeting elementary, primary, secondary and technical/vocational education,
- Health services with emphasis on primary and preventive health care,
- Infrastructure services with emphasis on maintenance of existing assets,
- Primary industry development with an emphasis on private sector development, job creation and capacity building through need based training, and
- Law and Order problems and issues through preventive measures to provide an environment conducive to investment and social harmony.

In an attempt at addressing the priority areas, the 2001 Development Budget comprises K390.8 million as Government financing while K135.0 million and K525.3 million as concessional loans and grants respectively. Comparatively, there is a significant increase in financing from the Government's own resources and new concessional loans secured for the projects in 2001 from 2000. Table 1 represents comparative sectoral appropriations for the current financial year with that of 1999 and 2000 while Table 2 presents forecasts for the next 5 years by sector.

Table 1. Comparative Analysis for 2001 with 1999-2000 for Sectoral Allocations (in Kina Millions)

Sector	1999 %		2000 %		2001 %	
Economic	193.84	23	67.48	7.4	97.85	9.31
Infrastructure	320.14	37	191.67	21.2	526.46	50.09
Social Services	184.45	21	224.77	24.9	192.01	18.27
Law & Order	26.74	3	37.57	4.2	42.37	4.03
Administration	58.04	7	329.45	36.5	192.37	18.3
Provinces	78.04	9	52.46	5.8	**	**
TOTAL	861.25	100	903.40	100	1,051.06	100

Clarifications on the differences between sectors as well as between 2000 and 2001 financial years are as follows:

1. The increase in the overall Development Budget appropriation is reflective of the Government's strategies and objectives to increase its efforts for social development while providing the relevant infrastructure and addressing the law and order issues to create an environment conducive for economic development.

¹ Refer to Annex for a list of roads and bridges to be funded under this package.

2. The 45 per cent increase in the economic sector reflects the Government's commitment to creating income generating opportunities.
3. The K526.46 million appropriation, representing an increase 96.94 per cent in the infrastructure sector from K191.67 million in 2000 reflects the transfer of the Rural Development Program of K143.5 million from the Administration sector and K5.48 million for projects under provinces. The infrastructure sector accounts for K377.48 million of which K301.01 million is appropriated to the transport sector.
4. Social services appropriation declines by 14.57 per cent from the 2000 level. This results from completion of some of the major projects. However, K26.80 million is appropriated under the National Development Charter Program to offset the reduction.
5. Law and Order sector has an increase of 12 per cent as a result of the Government's continued emphasis to combat law and order problems in the country.
6. The Administration sector also experiences a decline in development budget appropriation by 41.61 per cent from the expected 2000 development expenditure.

Table 2. Sectoral Distribution of Total PIP - 2001-2005 (in Kina Millions).

Sector	5 Year Total	2001	2002	2003	2004	2005
Economic	250.81	97.85	53.67	49.67	36.77	13.34
Infrastructure	1,481.19	526.46	414.99	316.67	259.67	16.4
Social Services	301.65	192.01	60.81	31.76	10.25	10.02
Law & Order	127.22	42.37	37.09	17.54	15.16	15.06
Administration	804.45	192.37	198.62	164.17	113.34	109.71
TOTAL	2,965.32	1,051.06	765.18	579.81	435.19	164.53

Table 2 provides the financial resource forecast for the all the projects included and funded in the 2001 Development Budget in accordance with their respective total costs and time duration. Any fluctuations in project costs will be accounted for in the revised forecasts on an annual basis. The details of the above forecasts are provided in the tables that follow. In summary the tables show the following data:

- Type of costs - Direct or Technical Assistance
- Expenditure Function - Current Expenditure, Capital Expenditure, project Preparation or Project Implementation
- Type of Identification of Financing - GoPNG, Project Revenue, Concessional Loan, Grant, or Technical Assistance,
- Type of Sought Financing - Direct Costs or Technical Assistance.

The key initiative in the 2001 development budget is the introduction of the Development Charter Program. This Program will implement the specific commitments under the National Charter on Reconstruction and Development and increase significantly the delivery of basic services to Papua New Guineans. The Program also reflects the Government's strategy to ensure that development expenditure is based clearly on a coherent and consistent development policy framework. In 2001, K109 million has been allocated under the Program and the key projects to be funded include:

- Basic Services Improvement Package
 - District Aid Post Rehabilitation K13.4 million
 - District Primary School Infrastructure K13.4 million
- Less Developed Districts Support Package K14.1 million
- District Roads and Bridges Improvement Package K34.7 million

Under the Program funds will also be provided to support the design and implementation of a uniform planning system and strategic activities that will promote economic growth over the longer term. As well, under the Program additional funds have been secured for the Government's ongoing road maintenance program (see chapter xx for further details on the Development Charter Program).

Through the introduction of the Development Charter Program, in the 2001 Development Budget there has been an improvement in the allocation of resources to the priority activities identified under the Government's development policy framework (Table xxx).

Table XXX: The 2001 Development Budget and Priority Activities

ACTIVITY	BUDGET ALLOCATION (K millions)	SHARE OF TOTAL (%)
Basic Education	157.2	15.0
Primary Health	147.5	14.0
Infrastructure with a focus on Maintenance	351.5	33.4
Primary Industries	115.4	11.0
Law and Order	47.3	4.5
Capacity Building	114.6	10.9
Other	117.5	11.2
TOTAL	1,051.1	100.0

As shown in Table XXX, infrastructure projects with a focus on maintenance activities receive the largest share of the 2001 budget. Road maintenance accounts for the bulk of this category. Significant resources have also been allocated to the priority activities of basic education, primary health care, primary industries and law and order.