



The age of choice: Papua New Guinea in the new aid landscape

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Key messages

- Aid flows from traditional development partners are becoming less and less important as a source of development finance for Papua New Guinea. They have declined by more than 30% in 20 years.
- Non-traditional development assistance as a share of total development assistance (traditional and non-traditional sources combined) rose to 13% in 2011, up from 8% in 2004.
- The presence of a dominant donor (Australia) with strong and direct bilateral relations with the Government of Papua New Guinea means that aid coordination mechanisms between the government and other development partners have become less relevant.
- The Government of Papua New Guinea is particularly capable of articulating strategies and priorities when it comes to terms and conditions of development assistance, and medium- and long-term development plans. However, ambitious and detailed goals (such as those of the Kavieng Declaration on Aid Effectiveness) have yet to be fully implemented.

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Other studies in the series include:

Greenhill, R (2013), *Age of Choice: Cambodia in the new aid landscape*, ODI report.

Prizzon, A. and A. Rogerson (2013), *Age of Choice: Ethiopia in the new aid landscape*, ODI report.

Prizzon, A. (2013), *Age of Choice: Zambia in the new aid landscape*, ODI report.

Schmaljohann, M. and A. Prizzon (2014), *Age of Choice: Fiji and Vanuatu in the new aid landscape*, ODI report.

Table of contents

Acknowledgements	ii
Abbreviations	iv
Executive summary	1
1 Introduction	4
1.1 Background	4
1.2 Methodology and research questions	4
2 Contextual information	6
2.1 Economic conditions	6
2.2 Governance and geopolitical conditions	8
2.3 National strategies, aid management context and national actors	8
2.4 Context analysis: implications for aid negotiations	11
3 Mapping non-traditional development assistance flows to PNG	12
3.1 Bilateral official non-traditional providers	13
3.2 Vertical health funds	14
3.3 Philanthropic assistance	14
3.4 Climate finance	15
4 Government priorities and outcomes	16
5 Arenas for negotiation with traditional and non-traditional providers of development assistance	18
5.1 Sovereign donors	18
5.2 Coordination with the private sector	19
6 Conclusions	20
References	22
Appendix	24
Figures	
Figure 1: Trends in development assistance flows to PNG 2004-2011 (\$ millions) – traditional and non-traditional development assistance	12
Figure 2: Composition of development finance flows, 2009-2011 average (%)	13
Tables	
Table A1: Annex: Development finance flows to PNG, 2004-2011	24

Abbreviations

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
CIMC	Consultative Implementation and Monitoring Council
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DoH	Department of Health
DoNPM	Department of National Planning and Monitoring
EU	European Union
FBO	Faith-based Organisations
FDI	Foreign Direct Investment
GAVI	GAVI Alliance (formerly Global Alliance for Vaccines and Immunisation)
GDP	Gross Domestic Product
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GNI	Gross National Income
GoPNG	Government of Papua New Guinea
HDI	Human Development Index
LMIC	Lower-middle-income Country
LNG	Liquefied Natural Gas
MTDP	Medium Term Development Plan
NGO	Non-governmental Organisation
NTDA	Non-traditional Development Assistance
NTP	Non-traditional Provider
OCCD	Office of Climate Change and Development

ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OTML	Ok Tedi Mining Ltd
PNG	Papua New Guinea
PNG SDP	PNG Sustainable Development Programme
PNG-CAE	Papua New Guinea Commitments on Aid Effectiveness
PNGDSP	Papua New Guinea Development Strategic Plan
PPP	Public–private Partnership
REDD	Reducing Emissions from Deforestation and Forest Degradation
SWF	Sovereign Wealth Fund
SWG	Sector Working Group
TA	Technical Assistance
UNDP	United Nations Development Programme

Executive summary

Development cooperation is changing rapidly. Development assistance from members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC) is becoming less important. There are now numerous other sources of development assistance: non-DAC donors, such as China and India; philanthropic organisations, such as the Bill and Melinda Gates Foundation; and new ‘social impact investors’, such as the Shell Foundation and the Acumen Fund.

This report reviews the experience of Papua New Guinea (PNG) in managing these non-traditional development assistance (NTDA) flows, as part of the broader Overseas Development Institute (ODI) project ‘The age of choice: How are developing countries managing the new aid landscape?’ (see Greenhill et al., 2013). This study examines the challenges and opportunities experienced by governments in managing the new aid landscape, particularly in regards to the growth of NTDA. By NTDA, we mean cross-border sources of finance provided to developing countries for public or philanthropic purposes, which have an element of concessionality but are not ‘traditional’ bilateral or multilateral official development assistance (ODA). The category of ‘non-traditional providers’ (NTPs) includes non-DAC donors, climate finance, philanthropic organisations, social impact investors and global health funds.

The methodology for the case studies is adapted from Fraser and Whitfield (2008) and Ostrom et al. (2001). The key insight from Fraser and Whitfield (2008), in contrast with much of the literature on the political economy of aid, lies in seeing the process of engagement between partner country governments and donors or NTPs as one of negotiation. Partner country governments and providers are assumed to possibly have a divergent set of objectives that they seek to reconcile through negotiation. Fraser and Whitfield (2008) also focus on the importance of both the economic and political context in shaping country and donor negotiating capital and negotiation outcomes.

Drawing on this theoretical framework, we sought to answer the following questions for the case of PNG:

- How have the volume and composition of total development assistance, and the breakdown between traditional and non-traditional sources, changed since the early 2000s?
- What is the economic, political and aid management context that determines PNG’s ability to mobilise and utilise development assistance and shapes the outcomes of negotiations between government and providers?
- What are PNG’s priorities concerning the volume, purpose and ‘terms and conditions’ of development assistance? To what extent do these priorities differ for different types of providers?

-
- In which arenas does PNG seek to engage with providers, and which strategies does it employ to negotiate with them? How do these arenas and strategies differ for the various types of providers?
 - To what extent is PNG achieving its objectives when it comes to negotiating with providers? How has the existence of NTPs of aid helped or hindered PNG in achieving its objectives?

The main messages emerging from this case study are as follows:

- PNG has diversified its sources of development assistance since the mid-2000s. In 2011, NTDA flows made up 13% of total development assistance (traditional and non-traditional sources combined), up from 8% in 2004 (the first year for which data is available for all the flows). Among non-DAC development partners, China is the major, if not the only, player in PNG. China is partly integrated within aid coordination mechanisms and has also signed the localised version of the Paris Declaration on Aid Effectiveness (Kavieng Declaration). Its direct assistance is negligible at the time of writing, but the landscape of development finance may change quickly if the Government of Papua New Guinea (GoPNG) finalises negotiations on a nearly \$3 billion loan package with China Eximbank. The amount of this loan would correspond to approximately 20% of PNG's annual GDP.
- The second-largest development agency in the country (after Australia) was not a sovereign donor but a privately endowed offshore fund – PNG Sustainable Development Programme (PNG SDP). This unique programme in the development finance landscape disbursed an average of \$43 million annually from 2002 to 2012 (or 7% of ODA flows), and was a good example of large-scale domestic philanthropic assistance. Its structure, however, may change, as GoPNG has taken full ownership of Ok Tedi mine, the largest mine in the country, and all dividends are now flowing to the national government. Despite its relevance at country level, PNG SDP was not involved in aid coordination mechanisms.
- When it comes to the context analysis, two facts are worth noting. First, the liquefied natural gas (LNG) project and large resource endowments mean the country has good economic growth prospects, offering considerable scope to rely on domestically generated resources – hence reducing dependency on development partners – and a strategy to effectively manage resources accruing from mineral wealth via the creation of an SWF. However, corruption and law-and-order issues may hamper further foreign direct investment (FDI) inflows. Second, aid flows from traditional development partners are becoming a less and less important source of development finance for PNG – a lower-middle-income country (LMIC). ODA flows to PNG have declined by more than 30% in 20 years – from \$900 million in 1990 to \$600 million in 2011 – and, given sustained national economic growth, their share of GNI fell from 13.3% in 1990 to less than 5% in 2011. However, the ratio is still well above the LMIC average (0.77% of GNI in 2011).
- Australia dominates the aid landscape in PNG as the country's largest donor, contributing approximately 80% of total ODA flows in 2011.

The existence of a dominant donor that maintains strong and direct bilateral relations with GOPNG means that aid coordination mechanisms between the government and other development partners become less relevant. PNG remains a geostrategically important country for Australia as the latter is both the main export destination and the main import source for PNG's goods and services. Australia is also the main destination for emigration flows from PNG.

- Several interviews as well as a review of strategy documents and of implementation milestones revealed GoPNG's particular ability to articulate strategies and priorities when it comes to terms and conditions of development assistance (ownership, harmonisation, whole-of-PNG-government approach, cost-effectiveness and local capacity building). However, ambitious and detailed goals, such as those of the Kavieng Declaration on Aid Effectiveness, fail to be fully implemented.

1 Introduction

1.1 Background

Development cooperation is changing rapidly. Development assistance from members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC) is becoming less important. There are now numerous other sources of development assistance: non-DAC donors, such as China and India; philanthropic organisations, such as the Bill and Melinda Gates Foundation; and new ‘social impact investors’, such as the Shell Foundation and the Acumen Fund.

This analysis of Papua New Guinea (PNG) belongs to a set of case studies examining the challenges and opportunities governments experience in managing the new aid landscape, particularly the growth of what we call ‘non-traditional development assistance’ (NTDA) (see Greenhill et al., 2013). By NTDA, we mean cross-border sources of finance provided to developing countries for public or philanthropic purposes, which have an element of concessionality but are not ‘traditional’ bilateral or multilateral official development assistance (ODA). The distinction between traditional and non-traditional is a useful approximation at best, inevitably involving a degree of subjective judgement. It does not imply either that the so-called ‘traditional’ providers do not innovate or that ‘non-traditional’ assistance is new. It nevertheless provides a useful conceptual distinction for the purposes of this study.

The category of ‘non-traditional providers’ (NTPs) includes non-DAC donors climate finance, philanthropic organisations, social impact investors and global health funds. This paper does not focus on domestic resource mobilisation or purely private flows. The rationale for focusing only on NTDA flows is twofold: the limited scope of the study makes it more manageable; and these flows are the most likely to complement or substitute for ODA, and governments may therefore manage them in comparable ways.

1.2 Methodology and research questions

The methodology for the case studies is adapted from Fraser and Whitfield (2008) and Ostrom et al. (2001). The key insight from Fraser and Whitfield (2008) lies in seeing the process of engagement between governments and donors or NTPs as one of negotiation, in contrast to the principal-agent approach described in much of the literature on the political economy of aid. Governments and providers are assumed to have divergent sets of objectives that they seek to reconcile through negotiation. Fraser and Whitfield (2008) also focus on the importance of the political and economic context in shaping country and donor negotiating capital and thereby negotiation outcomes.

Drawing on this theoretical framework, this paper seeks to answer the following questions for the case of PNG:

- How have the volume and composition of total development assistance, and the breakdown between traditional and non-traditional sources, changed since the early 2000s?
- What is the economic, political and aid management context that determines PNG's ability to mobilise and utilise development assistance and shapes the outcomes of negotiations between government and providers?
- What are PNG's priorities concerning the volume, purpose and 'terms and conditions' of development assistance? To what extent do these priorities differ for the various types of providers?
- In which arenas does PNG seek to engage with aid providers, and which strategies does it employ to negotiate with them? How do these arenas and strategies differ for the various types of providers?
- To what extent is PNG achieving its objectives when it comes to negotiating with providers? How has the existence of NTPs of aid helped or hindered PNG in achieving its objectives?

This case study analysis of PNG is largely based on a Development Finance and Aid Assessment, which was commissioned and organised by the Department of National Planning and Monitoring (DoNPM), and supported by the United Nations Development Programme (UNDP) Asia-Pacific Regional Centre and the UNDP Country Office. A country visit was conducted over two weeks between May and June 2013. Interview findings were combined with a background literature review and data analysis.

The case study report is structured as follows. Section 2 summarises the relevant economic and governance context that shapes aid negotiations and reviews key indicators of PNG's political, governance, economic and social development between 2000 and 2010. Section 3 outlines trends in volumes and modalities of development assistance flows from the main NTPs (official and private), again since the beginning of the 2000s. Section 4 outlines Government of PNG (GoPNG) priorities regarding the terms and conditions of development assistance flows and how they have evolved over time, and whether GoPNG has been able to meet its objectives in negotiations with traditional and non-traditional providers. Section 5 describes the arenas in which government interacts and negotiates with non-traditional development partners as well as the implications for traditional aid coordination mechanisms. Section 6 concludes by summarising the main case study findings.

2 Contextual information

This section discusses the context that has likely shaped PNG's ability to manage assistance flows from traditional and non-traditional providers. The methodology used for the case study (see Greenhill et al., 2013) stresses the importance of context in influencing a country's ability to negotiate effectively with providers, both traditional and non-traditional. Contextual factors include (1) economic conditions, (2) political and governance conditions, and (3) a country's progress towards aid effectiveness targets and national development strategies.

2.1 Economic conditions

Economic growth has been strong and sustained since the mid-2000s. Poor performance on economic growth in the early 2000s, averaging 0.9% between 2000 and 2004, was overturned by rampant growth rates that averaged 6.4% between 2005 and 2011. These rates were fuelled by the mining and petroleum sector and by implementation of the liquefied natural gas (LNG) project (gas production and processing led by Exxon Mobil in the Hela, Southern Highlands and Western provinces of PNG). Natural resource rents were estimated to account for 36% of PNG's gross domestic product (GDP) in 2011. The country's economy also escaped the worst of the global financial and economic crisis. Its resilience resulted from (1) its large-scale bank liquidity, (2) limited exposure to international financial markets, (3) large-scale externally funded capital investment (such as the LNG project), and (4) sustained commodity prices and demand for some of the country's major export products, notably gold and cocoa.

Fiscal policy and debt management have become more prudent. After having run a large fiscal deficit, close to 4% in 2002 (as a result of significant overspending and lower-than-expected revenues), GoPNG managed to achieve fiscal surpluses in the period of high commodity prices between 2004 and 2008, mainly through corporate and income tax of petroleum and mining companies.¹ External debt fell: its share of gross national income (GNI) was at its peak of 83.3% in 1999 (World Bank, 2013) but dropped to 18.1% in 2008. Most of the debt stock is on concessional terms, and there is a very limited share of borrowing on commercial terms. This trend was the result of several factors: better fiscal and economic management (including a widely shared and clear Medium-term Debt Policy introduced in the mid-2000s with a cap on the debt ratio), early debt repayments leveraging on windfall gains from natural resources, better financial management of debt obligations, and the Kina's appreciation against the dollar.

GoPNG has been considering establishing an offshore Sovereign Wealth Fund (SWF) for the purposes of managing financial assets that accrue from natural resources and of stabilising fiscal revenues² (GoPNG, 2012). Recently, however, GoPNG committed to channel LNG revenues outside of the SWF (Yala et al.,

¹ In particular, government revenues grew by 46% between 2003 and 2005 (Batten, 2010).

² The PNG SWF consists of a *Stabilisation Fund* – to absorb and smooth the impact of fluctuating mineral and petroleum revenues on the PNG economy and on the budget – and a *Development Fund* – to provide an ongoing funding source for public service delivery.

2014) – a Kina 3 million loan to purchase a 10.1% stake for the state in Oil Search Ltd (the second LNG project). Furthermore, PNG became a candidate country for the Extractive Industry Transparency Initiative in March 2014.

In real terms, ODA has declined by 30%, from approximately \$900 million in 1990 to \$600 million in 2011. The share of GNI plummeted from 13.3% in 1990 to less than 5% in 2011. The ratio is still, however, greater than the lower-middle-income country (LMIC) average (0.77% of GNI in 2011), and the average net ODA per person in PNG is at least twice as high as the LMIC average.

Australian cooperation programmes dominate the aid landscape. Australia is by far the largest donor (\$510 million out of \$600 million in 2011), accounting for more than 80% of total ODA to PNG. The second- and third-largest development partners, the World Bank and New Zealand, provided an average of \$31 million and \$21 million respectively in 2007-2011 (based on OECD, 2013).

Up until 2008, the share of ODA in PNG's development budget fluctuated between 20% and 70%. Since 2008, it has plummeted to 30%. Since 1990, the share of assistance in the form of technical cooperation has also progressively declined: GoPNG set a target of less than 50% of foreign aid being in the form of technical assistance (TA) by 2015 (see Section 2.3); this target was met in 2011, when TA accounted for less than 50% of total ODA for the first time (48% precisely).

GoPNG plans to become a donor in the Pacific region by 2030, moving on from the role of aid recipient (GoPNG, 2010a). From the round of consultations, we understand that GoPNG has implemented a series of programmes with the Solomon Islands (K40 million in 1989-2012, and K20 million per year between 2012 and 2016, supporting student exchanges in higher education), Samoa (K6 million), Tuvalu and Tonga (under the Pacific Forum budget line), and Fiji (K50 million).

Foreign direct investment (FDI) inflows have increased. In volume terms, FDI inflows to PNG have been volatile, peaking at 5.2% of GDP in 2009. This figure was associated with the launch of the first LNG project. The percentage then dropped to a low (a net disinvestment) of -2.4% (of GDP) in 2011 (World Bank, 2013).³ According to Bank of PNG figures for 2007, the six largest investors contributed 80% of total FDI inflows. Again, Australia is PNG's largest source of foreign investment (as it has been historically), accounting for over 50% of all foreign equity investments in PNG in 2007. In terms of sector distribution, the vast majority of foreign equity – nearly three quarters (73%) – is invested in the minerals/petroleum sector (IPA, 2011, based on 2007 data).

Growth has not been translated into improvements when it comes to human development. Despite high rates of economic growth in the past 10 years and the country's LMIC classification, improvements in human development have been slow and inequitable. Spatial disparities are evident across regions and provinces and within households, with women and children being the most vulnerable groups. With a population divided by 850 different languages, distinct identities and cultural traditions, and tough geographic terrains, delivering basic public services continues to be a challenge (GoPNG, 2010b).

³ As a reference, the LMIC average between 2006 and 2011 was around 3% of GDP.

2.2 Governance and geopolitical conditions

PNG – a country with a population of 7 million – has had a long history of turbulent politics and frequent changes of government through ‘votes of no confidence’ (GoPNG, 2010c). However, the political climate has stabilised in the past 10 years, and investor confidence has improved. PNG ranks near the bottom of the Transparency International Corruption Perceptions Index for 2011 (150th of 176 countries). Several interviewees for the present study stressed law-and-order issues as one of the major constraints to investing in PNG.

PNG was once a colony of Australia, and relations between the two countries – which are situated in close geographical proximity to one another – are still complicated. From the PNG perspective, Australia is the main export destination and import source for goods and services. It is also the main source of immigration and the primary destination for emigration as well as PNG’s main development partner. As noted above, Australia also accounts for the majority of development assistance to PNG.

The Pacific region is becoming more important for China. Chinese diplomatic efforts in the area were originally concentrated on preventing the diplomatic recognition of Taiwan and on economic cooperation (access to fish stocks, mineral wealth and timber resources in PNG) (Hanson, 2008); the Pacific was not considered a strategically important region. This scenario has evolved since the end of the 2000s. Hayward-Jones (2013) warns of a commercially driven geostrategic threat from China in the region and in PNG in particular. The size of the market and the volume of natural resources make PNG a particularly interesting case for Chinese construction, manufacturing and mining companies.

The Australian and Chinese governments signed a Strategic Partnership in April 2013. This memorandum of understanding is meant to enable the two countries to cooperate on aid initiatives, including on regional health issues and water resource management.

2.3 National strategies, aid management context and national actors

This section outlines government strategies. These include sectoral priorities and aspirations as well as the main elements of the aid coordination system, which is one of the arenas where development assistance is negotiated.

It concludes by describing one of the private actors that was involved in development assistance programmes: the PNG Sustainable Development Programme (PNG SDP). Its features as a development agency were rather peculiar. Since the takeover of Ok Tedi mine by the government at the end of 2013, the agency no longer exists as a separate private entity. However, towards the end of this section we describe an alternative model for development assistance providers operating in the aid sphere.

2.3.1 National strategies

Four plans combined offer policy prescriptions and aspirations to enhance PNG’s political, governance, economic, social and environmental development:

- **PNG’s Vision 2050** is an aspirational document setting out PNG’s path toward inclusion in the top 50 countries of the Human Development Index. PNG currently ranks 156th of 183 countries (UNDP, 2013).

- **2010-2030 PNG Development Strategic Plan (PNGDSP)** is PNG's first long-term policy strategy that envisions strong country ownership. It outlines the policies for PNG's transition to a 'prosperous' middle-income country (Hangatt and Momoi, 2011), with plans to become a donor in the Pacific region, in a move away from being solely an aid recipient. Within this strategy, GoPNG encourages partnerships with donors to help resource infrastructure – particularly the building of roads, ports, schools and hospitals – as well as higher education.
- **2011-2015 Medium Term Development Plan (MTDP)** provides a roadmap and implementation details for PNGDSP over a five-year period. Unlocking land for development; improving law and order; and investing in primary, secondary, higher and technical education, health, utilities and a quality transport infrastructure are the sectoral enablers of the medium-term plan (GoPNG, 2010c: 19). The plan outlines specific terms and conditions for external assistance and aid management structures to be reached by 2015. These are
 1. less than 50% of foreign aid in the form of TA by 2015, and less than 5% by 2020, with full independence from donors in the provision of skilled personnel
 2. a national and sector-level dialogue system operationalised for development partners
 3. a reduction in aid fragmentation
 4. by 2020, definition of a joint assistance strategy with development partners.
- In September 2012, after the national elections, the coalition government agreed on 78 priorities, which are known as **the Alotau Accord Platform for Action**. It identified priority impact projects for the first 18 months after the legislation in the areas of education, health care, corruption, infrastructure, LNG, law and order, public sector reform and public-private partnership policy.

2.3.2 Aid management

DoNPM is the central government agency responsible for managing and coordinating development assistance from official donors following the budgetary process. It is thus expected to be the entry point for negotiations with development partners. No joint assistance strategy has been implemented in PNG so far and no formal aid coordination secretariat is in place.

In 2008, GoPNG and development partners agreed on the Papua New Guinea Commitments on Aid Effectiveness (PNG-CAE or localised Commitments on Aid Effectiveness) in the Kavieng Declaration, in which Paris Declaration principles were adapted to the local PNG context. Development partners that signed the declaration included the former Australian Agency for International Development (AusAID) (now the Department of Foreign Affairs and Trade), the Government of Japan, the Asian Development Bank, the New Zealand Agency for International Development, the European Union (EU), the World Bank, and the Embassy of the People's Republic of China. Despite an articulated strategy, little progress has been made in terms of regular consultations with donors and government agencies in implementing PNG-CAE (GoPNG, 2011b). A process and an architecture for managing and engaging with development partners in implementing PNG-CAE have been agreed on through a number of critical political and bureaucratic oversight and coordination committees, but their use has been limited or non-

existent. At the time of the interviews for the study, the aid coordination architecture in PNG consisted of three levels:

- The **Donors Forum** (ministerial and head of agencies level), which meets each year.
- The **Joint Technical Working Group on Development Effectiveness**, which meets twice a year. It convened in April 2013 for the first time since 2011. Participants include development partners, DoNPM, the Treasury, Finance, Foreign Affairs, Central Supplies, IRC (Internal Revenue Authority), the attorney-general, the state solicitor and line ministries. It does not involve the private sector, philanthropic organisations or non-governmental organisations (NGOs).
- **Sector Working Groups** (SWGs) (government-development partners). Piecemeal information was gathered on their level of coordination. Examples include the Health Sector Partnership Committee (AusAID, the World Health Organization and UNDP participate) and SWGs on Education, Transport, Energy, Justice and Gender. There seems to be limited formal inclusion of the private sector, philanthropic organisations and NGOs.

When it comes to performance vis-à-vis indicators of the Paris Declaration on Aid Effectiveness,⁴ GoPNG has faced substantial challenges related to public financial management systems. Only 19% of aid was recorded on budget, as against the 100% target in the Kavieng Declaration.

Since September 2010, the Office of Climate Change and Development (OCCD) has been the main coordinating unit and acts as a National Climate Change Committee secretariat (OCCD, 2011). OCCD has a specific mandate on funding and international negotiations: (1) to implement a national financial strategy in collaboration with development partners to build capacity for REDD+ and other aspects of climate compatible development, and (2) to support GoPNG with international climate change negotiations and climate change funding in order to provide consistent and reliable data and finances to improve and sustain forest governance and livelihoods of forest communities (OCCD, 2011).

2.3.3 PNG Sustainable Development Programme

PNG SDP⁵ was a unique organisation in the landscape of development finance providers and an example of large-scale domestic philanthropic assistance, with the latest annual report claiming that it was the second biggest development agency in PNG. PNG SDP had two distinctive characteristics.

First, it was a privately held independent and not-for-profit investment fund based in Singapore. It was established in 2002 after BHP Billiton disinvested its 52% holdings in Ok Tedi Mining Ltd (OTML) (Johnson, 2010: 3) as an exit strategy from reputational risks linked to environmental damage. As government systems were not considered appropriate for channelling revenues generated by the mine, an independent fund was established instead. Second, the trust mandate was to invest in short- and long-term development projects in PNG, especially in the Western

⁴ The analysis refers to the 2008 round, as PNG did not participate in the 2011 survey.

⁵ PNG SDP did not participate in the round of consultations in May/June 2013.

province. BHP Billiton was indemnified against future lawsuits seeking compensation for environmental damage.

Following the takeover of Ok Tedi mine by GoPNG in late 2013, PNG SDP ceased to exist. Given its peculiarity in the context of the new actors in the development finance landscape (see Section 1.1), it will nonetheless be described in this paper.

2.4 Context analysis: implications for aid negotiations

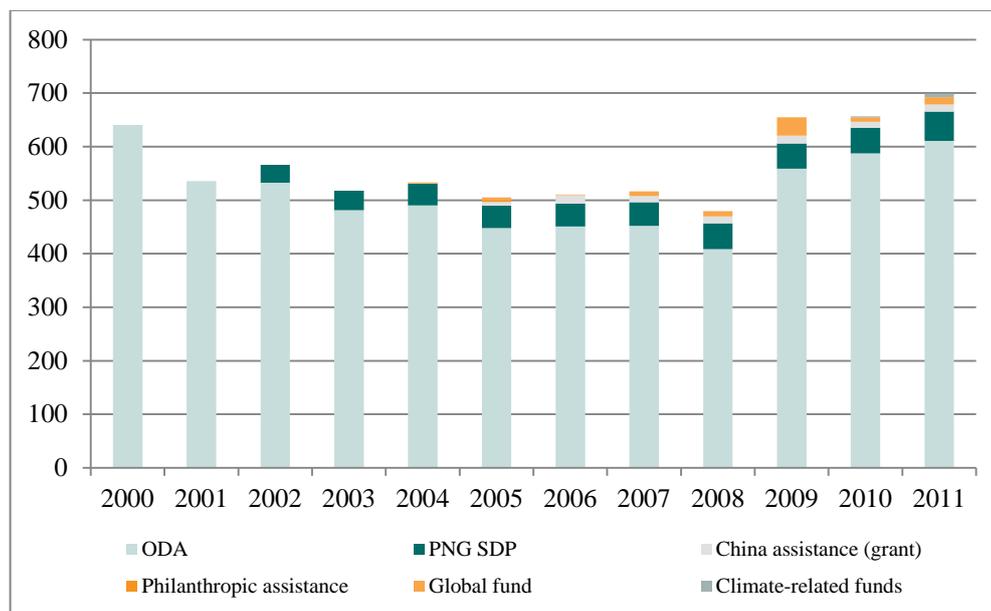
The contextual analysis in previous sections include PNG's objectives and negotiation strategies and their outcomes in relation to traditional and non-traditional providers of development assistance. Some factors strengthen PNG's negotiating power and others weaken it:

- Within the landscape of development finance, ODA is becoming less and less important for PNG in relative terms, with GoPNG setting targets for ending dependency on aid flows particularly as far as TA is concerned.
- Contributing to approximately 80% of ODA flows in 2011, Australia is by far the largest donor and dominates the aid landscape in PNG. The existence of a dominant donor that maintains strong and direct bilateral relations with GoPNG means aid coordination mechanisms between the government and other development partners become less relevant. PNG remains a geostrategically important country for Australia, as the latter is both the main export destination and the main import source for PNG's goods and services. Australia is also the main destination of PNG emigrants. At the same time, the Pacific region is becoming more strategically relevant for China.
- The second-largest development agency in the country was not a sovereign donor but a privately constituted offshore fund. PNG SDP was a unique programme in the development finance landscape and an example of large-scale domestic philanthropic assistance. Despite its relevance at country level, the agency was not involved in aid coordination mechanisms. However, its structure has changed: GoPNG has taken full ownership of Ok Tedi mine, the largest in the country, with all dividends now flowing to national government.
- The LNG project and large resource endowments also mean the country has good growth prospects, with considerable scope to rely on domestically generated resources – hence reducing dependency on development partners. It had a strategy to manage resources accruing from mineral wealth via the creation of an SWF. However, corruption as well as law-and-order issues may hamper further FDI inflows.
- Development partners only partially use country systems: 19% of aid is recorded in the government budget (OECD, 2008).
- GoPNG appears particularly capable of articulating strategies and priorities when it comes to terms and conditions of development assistance and medium- and long-term development plans. However, ambitious and detailed goals (such as in the Kavieng Declaration on Aid Effectiveness) fail to be fully implemented.

3 Mapping non-traditional development assistance flows to PNG

Having reviewed the main contextual factors, in this section we provide an assessment of the volume and trends of flows in NTDA. These are (1) bilateral official NTPs, notably China, (2) vertical health funds, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) and the GAVI Alliance, (3) philanthropic assistance, and (4) climate finance.

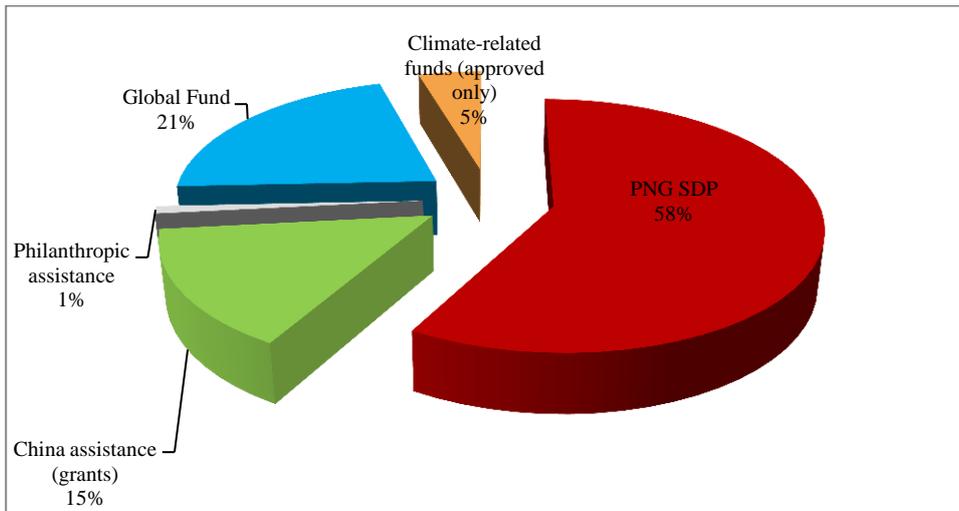
Figure 1: Trends in development assistance flows to PNG 2004-2011 (\$ millions) – traditional and non-traditional development assistance



Sources: CFU (2013); Foundation Center (2013); Global Fund (2013a); GoPNG budgets (various issues); OECD (2013); PNG SDP (2013); World Bank (2013). Chinese assistance available from budget data only from 2008. ODA flows include both ODA loans and grants. Hanson (2008) for 2005-2007, converted into Kina using World Bank average period exchange rate. Budget Volume 1 for 2009, 2010, 2011 and 2012.

In 2011, NTDA flows stood at 13% of total development assistance (traditional and non-traditional sources combined), up from 8% in 2004 (the first year for which data is available for all the flows) (Figure 1). Each year between 2009 and 2011 the largest NTDA contribution came from resources channelled via PNG SDP (average share 58%), followed by the Global Fund (average share 21%) and China (average share 15%) (Figure 2). See also the Annex for data and sources considered for this analysis.

Figure 2: Composition of development finance flows, 2009-2011 average (%)



Sources: CFU (2013); Foundation Center (2013); Global Fund (2013a); GoPNG budgets (various issues); OECD (2013); PNG SDP (2013); World Bank (2013). Chinese assistance available from budget data only from 2008. ODA flows include both ODA loans and grants. Hanson (2008) for 2005-2007, converted into Kina using World Bank average period exchange rate. Budget Volume 1 for 2009, 2010, 2011 and 2012.

3.1 Bilateral official non-traditional providers

China is the main non-DAC donor operating in PNG. Other programmes, by India, Malaysia and Thailand, are restricted to technical cooperation only and do not entail significant financial disbursements.

In 2012, China was estimated to be the fifth-largest provider of grants to PNG (GoPNG, 2011c), contributing \$13 million in 2011 particularly for education and social infrastructure projects (e.g. schools and an international conference centre). While not being ODA-equivalent, and at lower than market terms, a \$3 billion loan from China Eximbank is currently being negotiated. This is expected to be available from 2014 (GoPNG, 2012) and is not included in estimates of external financing. The length of negotiations is apparently a result of attempts to reach an agreement on the applicable procurement rules and modalities. Limited information is available on the actual content of the deal (i.e., projects covered and conditions). Once negotiations are completed, the size of the loan will be such that it will redefine the landscape of development assistance in the country.

However, while PNG may be China's main resource interest in the East Pacific region, offering China the greatest number of opportunities for construction, manufacturing and mining companies (Hayward-Jones, 2013), the country receives the smallest allocation from China in the region on a per capita basis (Hanson, 2008).

Hanson (2008) identified a series of concerns by government officials in the Pacific that China's aid programme (which includes, for example, office complexes and a stadium) does not meet priority infrastructure and development needs in the region and has high maintenance costs. However, in the round of interviews with government officials, it emerged that support from China was considered well aligned with the government's sectoral priorities in regards to infrastructure development. Chinese ODA-equivalent was described as operating differently from

that of other bilateral partners in terms of programming, disbursement and forward planning. Most of the projects funded by the Chinese government have been initiated by politicians or individual members of parliament.

3.2 Vertical health funds

Total assistance received from the Global Fund between 2004 and 2012 was nearly \$115 million, averaging \$15 million per year. PNG has not been awarded funds in all years (e.g. 2006 is a notable exception). Nearly 70% of resources have been allocated to programmes for malaria prevention and treatment, with the remaining funds allocated equally – on average – between HIV and AIDS and tuberculosis projects.

The government will be required to take over funding of certain supplies that are currently funded by development partners as a result of the reduced Kina value of the Global Fund's committed grants. Funding of antiretroviral therapy and rapid diagnostic test supplies has already been taken over (DoH, 2012).

3.3 Philanthropic assistance

Philanthropy and other forms of private development assistance have been growing substantially in recent years, both in absolute and proportionate terms at global level (Greenhill et al., 2013).

The case of PNG is idiosyncratic, given the role played by PNG SDP.⁶ PNG SDP channelled one third of annual dividend receipts from OTML to the Western province with the purpose of improving living standards in the region (PNG SDP, 2013). The remaining two thirds were invested in the Long-term Fund for the people of the Western province. They are expected to be spent within 40 years, after the closure of the mine. Between 2002 and 2012, PNG SDP received net dividends for K4.06 billion (\$1.8 billion) from Ok Tedi, with K1.3 billion (\$578 million) allocated to the development fund, which pays for current projects and programmes, and K2.62 billion (\$1.16 billion) to the Long-term Fund.⁷

Conversely, philanthropic assistance from US-based foundations targeting projects in PNG is very small. Between 2004 and 2011, total assistance totalled \$6.6 million and amounted to less than \$1 million per year on average. These figures are dwarfed by approximately \$600 million of ODA each year and an average of \$43 million from PNG SDP since 2002. The five largest US-based foundations operating in PNG are the David and Lucile Packard Foundation, the MacArthur Foundation, the Bill and Melinda Gates Foundation, the Christensen Fund and the Clinton Foundation. In 2010, the Bill and Melinda Gates Foundation accounted for half of all US-based philanthropic assistance to PNG (based on Foundation Center data). In the round of consultations, we found that philanthropic organisations seemed not to operate via country systems or conduct joint projects with government agencies. However, it was not possible to consult relevant line agencies operating in service delivery (the departments of Health and Education) regarding these issues. In sum, the role of conventional philanthropic assistance should not be overestimated – at least not without further data collection and analysis. However,

⁶ We classified this here as a philanthropic organisation, given its private nature.

⁷ In the round of interviews conducted with key stakeholders, it was not possible to interview representatives of the organisation. However, at the time of the analysis it emerged that there was limited coordination with the government, at least via formal mechanisms.

philanthropic support may also be critical in helping achieve development goals in other ways than direct financing, for example by funding research into vaccines or agricultural technologies, which may help meet development goals in other ways (see Greenhill et al. 2013).

3.4 Climate finance

Between 2010 and 2012, PNG received \$4.9 million climate-finance-related grants, with \$33 million committed since 2010. Assuming average flows for each year, climate finance to PNG is a negligible amount compared to ODA flows (climate finance totalled less than 0.03% of ODA flows) (see Annex). The largest share of committed and approved projects (71%) has mitigation-REDD (Reducing Emissions from Deforestation and Forest Degradation) as the main objective. Of total climate funds, 25% target climate change adaptation projects.

Among the priorities of the Alotau Accord is the establishment of a climate change policy that dictates how the country will administer and manage domestic and international climate change issues. During the country visit, it was not possible to ask OCCD about progress in this regard.

4 Government priorities and outcomes

Having reviewed the volume of, and trends in, NTDA flows, the paper now outlines our findings from interviews and key documents concerning priorities and preferences with regard to the ‘terms and conditions’ of traditional and non-traditional development assistance for GoPNG. ‘Terms and conditions’ refers to elements of aid quality, such as predictability, alignment and concessionality.

Interviews with government officials and a review of strategic documents and of implementation milestones (see also Section 2.3.1 on national development strategies) revealed detailed and clearly outlined strategies, objectives and means of implementation as well as preferences and expectations for the characteristics of aid flows and their modalities. For instance, the Kavieng Declaration – which ‘localised’ and tailored the principles of the Paris Declaration to the context of PNG – identifies the following objectives:

- ownership
- harmonisation
- whole-of-PNG-government approach
- cost-effectiveness
- preparation and communication concerning mission planning
- local capacity building
- clear feedback and agreement on next steps.

However, most of the architecture for aid management as described in Section 2.3.2 has not yet been put in place.

Unsurprisingly, specific principles have been set for technical assistance. These go beyond Paris Declaration principles: TA should be demand-driven; GoPNG should be involved in key processes; local capacity building, partnership and strategic alliances should be fostered; TA should be integrated with other aid interventions; and TA should be cost-effective. However, several interviewees suggested that the implementation process should be gradual in order to fill operational gaps or to support current staff.

GoPNG does not have an explicit strategy to access the various resources that are potentially available to finance its national development strategy. Several interviews raised the issue of limited absorptive capacity regarding the government officials’ ability to manage additional flows.

In MTDP 2011-2015, GoPNG expresses its preferred sectors for donor contribution, such as the building of infrastructure, particularly roads, ports, schools and hospitals, as well as the funding of higher education. In the round of consultations, it appeared that GoPNG was willing to negotiate with donors regarding the division of labour across development partners, at both sectoral and regional levels, and had a good understanding of the comparative advantage of each

donor and of its mix of financing instruments (grants/loans). For instance, Chinese assistance is seen as aligned with GoPNG's sector priorities, given that the majority of projects are in infrastructure. It also emerged that large tangible investments in hard infrastructure usually are prioritised and preferred to investments in social infrastructure or its maintenance.

Coordination is hampered by the current institutional arrangements in aid management and negotiations. First, while grants are recorded in the development budget only, which is currently prepared and administered by DoNPM, the Treasury leads on and is responsible for loan negotiations and management. Second, it seems that government line agencies engage with development partners directly without consulting DoNPM (DoNPM, 2013). Equally, some development partners prefer to coordinate with line agencies rather than central agencies (such as DoNPM).⁸ Development partners may consider line agencies to be an entry point for negotiations, bypassing central agencies. These are involved at a later stage when, for instance, counterpart funding is required. Limited information is exchanged with central agencies.

⁸ Central agencies in PNG are DoNPM, Treasury and the Department of Finance.

5 Arenas for negotiation with traditional and non-traditional providers of development assistance

In principle, GoPNG has a series of fora in which donors and officials review the technical and policy issues that pertain to aid delivery. This section distinguishes the fora involving sovereign and private donors.

5.1 Sovereign donors

Section 2.3 illustrated GoPNG's foreseen aid architecture. However, it emerged that aid coordination mechanisms have only recently been revamped after they were neglected throughout the past decade. According to GoPNG (2011b: 8), effective coordination of the country's foreign aid is lacking, and little progress has been made in terms of regular consultations with donors and government agencies in implementing PNG-CAE.

Australia dominates the aid landscape, being by far the largest donor, contributing approximately 80% of ODA in 2011. Presence of a dominant donor with strong and direct bilateral relations with GoPNG means aid coordination mechanisms between the government and other development partners become less relevant, and aid coordination is perceived as having a limited dividend. In several interviews, it emerged that there was a preference by GoPNG for negotiations via bilateral channels rather than via aid coordination mechanisms. For instance, there are special arrangements in place for negotiating assistance provided by Australia and the EU. First, the bilateral Partnership for Development (2008) with the Australian government is reviewed annually (at the Annual Partnership Dialogue) so that the aid programme addresses key priorities agreed to by both governments. The Australia–PNG Ministerial Forum – the highest-level regular meeting between the two countries – shapes the bilateral agenda. Second, since PNG is an African, Caribbean and Pacific Group of States country that signed the Cotonou Agreement in 2000, EU development assistance (via the European Development Fund (EDF)) is channelled via a National Authorising Officer that is responsible for implementing the provisions of this agreement. For the EDF, resources are managed by the PNG National Executive Council.

When it comes to the involvement of China in the coordination mechanism, Hayward-Jones (2013) indicates that the country has in the past been reluctant to cooperate with other donors in the Pacific region. China declined to join the Cairns Compact on Strengthening Development Coordination in the Pacific, saying, 'We have different approaches and practices from Western developed countries. We feel it is unnecessary to accept this multilateral coordination mechanism but we need

time to study it. China is open and transparent in providing aid' (quoted in Hayward-Jones, 2013). Furthermore, Chinese assistance is perceived as operating differently from that of other bilateral partners in terms of programming, disbursement and forward planning. Most projects funded by the Chinese government are initiated by politicians or individual members of parliament. In the round of consultations, GoPNG officials expressed no major concerns about the lack of participation of Chinese authorities in aid coordination mechanisms, probably because the actual amount of flows disbursed for development programmes is still relatively small.

It did emerge, however, that coordination at a technical level (between GoPNG and development partners) works relatively well and is considered effective, especially in those technical working groups where only one government department is involved.

Interviewees stressed that the philanthropic organisations, faith-based organisations (FBOs)⁹ and NGOs are not involved in the coordination mechanisms at either a political or a technical level, with the exception of the gender working group and the health sector. In the case of resources channelled by the Global Fund, in the round of consultations it emerged that there are a few challenges for fiscal planning and management: the rounds-based system of proposals is unpredictable and it does not use country systems. Furthermore, Global Fund spending is time-bound and prioritised, unlike national budget resources, with some shares of the national budget allocation to the Department of Health ending up unspent. The Global Fund's New Funding Model (to be in place in late 2013 (Global Fund, 2013b)) aims to address these issues by increasing predictability for funding and by introducing flexible timelines.

5.2 Coordination with the private sector

Corporate social responsibility (CSR) is a strategic objective for the private sector and the mining industry in particular. While the private sector provides development assistance in service delivery and infrastructure development via CSR programmes, there is no repository that systematically tracks volumes disbursed, numbers of projects implemented or sector of activities involved. Therefore, it is not possible even to estimate ballpark figures for CSR activities.

Nonetheless, it emerged that a joint forum, coordinated by the Chamber of Mines and Petroleum and involving the private sector, government departments and development partners, regularly takes place.¹⁰ The Consultative Implementation and Monitoring Council (CIMC), chaired by DoNPM, is another forum where civil society, the private sector and government departments develop policy and directly influence and monitor government decision-making for the long-term development of PNG. CIMC hosts both national and regional development fora and is organised in eight committees: transport and infrastructure, law and order, commerce support services, agriculture, tourism, health and population, family and sexual violence action, and the informal sector.

⁹ FBOs play a visible role in service delivery in PNG: it is estimated they provide around 50% of all health and education services in rural areas (GoPNG, 2010b). GoPNG provides funding to FBOs and has recently increased its contribution to improve service delivery, to reflect the priority placed on FBOs in the Alotau Accord (as stated in article No. 9 'Provision of targeted funding for Churches in Church government Partnership Arrangements').

¹⁰ The Chamber of Mines and Petroleum did not participate in the round of consultations in May/June 2013 so we cannot triangulate and specify this information.

6 Conclusions

To summarise, the main answer to the 5 questions set out in the introduction from this case study are as follows:

- **Volume of non-traditional development assistance.** PNG has diversified its sources of development assistance since the mid-2000s. In 2011, NTDA flows accounted for 13% of total development assistance (traditional and non-traditional sources combined), up from 8% in 2004 (the first year for which data is available for all the flows). Among non-DAC development partners, China is the major, if not the only, player in PNG. China is partly integrated within aid coordination mechanisms and also signed the localised version of the Paris Declaration commitments on aid effectiveness (Kavieng Declaration). China's direct assistance is negligible at the time of writing, but the landscape of development finance may change quickly if GoPNG finalises negotiations on a nearly \$3 billion loan package with China Eximbank. The amount of this loan would correspond to approximately 20% of PNG's annual GDP.
- The second-largest development agency in the country (the first is Australia) was not a sovereign donor but a privately endowed offshore fund: PNG SDP. This unique programme in the development finance landscape has annually disbursed an average of \$43 million from 2002 to 2012 (or 7% of ODA flows), and was a good example of large-scale domestic philanthropic assistance. Its structure, however, may change as GoPNG has taken full ownership of Ok Tedi mine, the largest mine in the country. Despite its relevance at country level, PNG SDP was not involved in aid coordination mechanisms.
- **Economic, political and aid management context.** When it comes to the context analysis, two facts are worth noting. First, aid flows from traditional development partners are becoming less important as a source of development finance for PNG – an LMIC. ODA flows to PNG have declined by more than 30% in 20 years – from \$900 million in 1990 to \$600 million in 2011. Given sustained national growth, their share of GNI fell from 13.3% in 1990 to less than 5% in 2011. However, the ratio is still well above the LMIC average (0.77% of GNI in 2011). Second, the LNG project and large resource endowments also imply that the country has good economic growth prospects with considerable scope to rely on domestically generated resources and to reduce dependency on development partners. However, corruption and law-and-order issues may hamper further FDI inflows.
- **Arenas for negotiations.** Australia dominates the aid landscape in PNG and is by far PNG's largest donor, accounting for approximately 80% of ODA flows in 2011. The existence of a dominant donor that

maintains strong and direct bilateral relations with the government means that aid coordination mechanisms between the government and other development partners become less relevant.

- **Priorities and outcomes.** Several interviews as well as a review of strategy documents and of implementation milestones revealed GoPNG's particular ability to articulate strategies and priorities when it comes to terms and conditions of development assistance (ownership, harmonisation, whole-of-PNG-government approach, cost-effectiveness and local capacity building). However, these ambitious and detailed goals (such as in the Kavieng Declaration on Aid Effectiveness) fail to be fully implemented.

While the GoPNG has diversified its sources of external development finance, most of its external official development assistance still comes from Australia posing challenges for aid management systems and financing government's priorities, especially at times when ODA receipts are falling. Furthermore, the GoPNG should increase its commitment to achieve the articulated sets of goals for the terms and conditions of development assistance.

At the time of writing there are a few outstanding issues which will deserve further scrutiny: first, the role as financing provider of the PNG SDP after the government taking up its control and its relations with other donors; second, the establishment of a SWF which will help smooth receipts from the mining and oil sector over time.

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Appendix

Table A1: Annex: Development finance flows to PNG, 2004-2011

\$ (millions)	2004	2005	2006	2007	2008	2009	2010	2011
ODA (loans and grants)	490.3	447.9	451.0	452.3	408.4	558.8	587.3	610.7
PNG SDP	40.3	41.9	42.5	43.8	48.1	47.2	47.8	54.8
China assistance (grants)		7.0	16.0	11.7	12.5	14.5	11.4	13.0
Philanthropic assistance	0.5	2.6	0.2	0.3	0.7	0.6	1.4	0.5
Global Fund	2.2	5.9	0.9	8.1	10.0	33.7	7.1	13.7
Climate-related funds (approved only)							1.4	6.4

Sources: CFU (2013); Foundation Center (2013); Global Fund (2013a); GoPNG budgets (various issues); OECD (2013); PNG SDP (2013); World Bank (2013). Chinese assistance available from budget data only from 2008. ODA flows include both ODA loans and grants. Hanson (2008) for 2005-2007, converted into Kina using World Bank average period exchange rate. Budget Volume 1 for 2009, 2010, 2011 and 2012.



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