Public investment policy in Papua New Guinea

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While a sectoral approach to education, health, communications, and law and order is now being followed, the implementation of public investment policy, two-thirds funded by donors, is well below par. This article reviews policy, its focus, and the structures in place to implement it and highlights some failures. A back-to-basics strategy, in terms of macroeconomic management, should be the basis for more effective public investment, but this needs to be accompanied by improved processes. Moreover, the donors need to examine whether there is sufficient absorptive capacity to accommodate their large aid agendas.

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Public investment policy drivers in Papua New Guinea are the poor levels of its economic and human development (AusAID 1998, Gupta and Levantis 1999, United Nations Development Programme (UNDP) 1998). Papua New Guinea ranks 129th out of 174 countries in the UNDP's Human Development Index, while its GNP per capita growth averaged 1.1 per cent between 1980 and 1995 compared with 2.1 per cent for all developing countries (UNDP 1998:Table 26).

And, while the country is classified in the middle income bracket by UNDP, this ranking—being on a per capita GDP basis—ignores the fact that the benefits of mineral exploitation are not widely distributed. The very poor level of human development suggests that the country has more in common with the lower income bracket countries in terms of its development needs.

Given that development spending is a priority not only for the Papua New Guinea government but also for the major multilateral and bilateral donors, there needs to be a public investment policy both to direct and coordinate development expenditure. In theory, this policy should ensure that expenditure is not diverted from priority projects for political purposes, that projects are not duplicated, and that appropriate human resources are provided for the administration of the various sources and uses of development spending. A major indirect goal of development expenditure should be to raise private investment and business activity.

Weak government administration in Papua New Guinea and particularly weak fiscal and monetary management has encouraged donors to prefer project aid—in the priority sectors of health, education and communications and transport—rather than injections into the country's annual budget. The preference for project aid is also notwithstanding the fact that it is much more expensive to administer than direct financial support to the annual budget. Moreover, this move to sectoral support has taken place despite the evidence that aid is fungible. That is, an increase in aid in a priority sector will allow a recipient government to reduce its expenditure in that area and increase expenditure elsewhere. An underlying reason why politicians in donor countries prefer project aid is that they find it easier to justify to their constituencies, particularly when projects can be tied to contracts and procurement in the donor country.

Issues and instruments

The PNG budget is split into development and recurrent expenditure. In 1999 the development budget is projected at K800 million, about a third of total government expenditure (Papua New Guinea 1999b: Table 1). Within the development budget a separate Public Investment Program (PIP) has been in place since 1988. The PIP provides details of program and project objectives and, importantly, identifies and quantifies the sources of funds for projects in current and future financial years.

The expectation is that the PIPs in the development budget will run for five years, with all future costs being accounted for. When the project is terminated after five years, the key recurrent costs associated with sustaining the project are supposed to be reflected in recurrent budgets of the central government, the provincial government, or both.

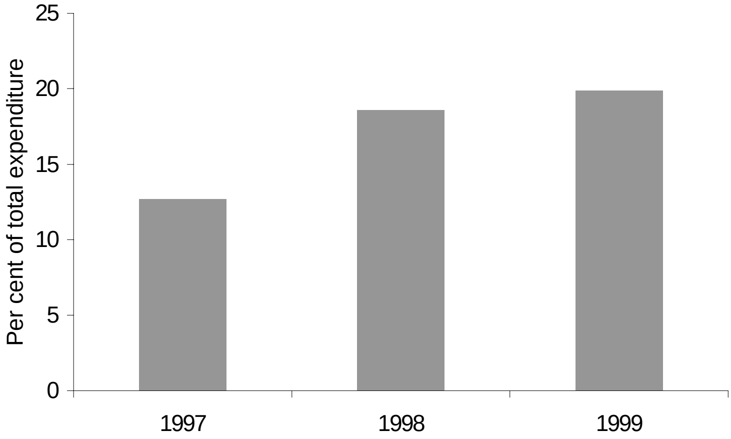
In the 1999 Budget, some 64 per cent of the PIP was to be funded by bilateral or multilateral donors. Of this, grant-financed projects comprised 45 per cent and concessional loans 19 per cent. The balance of 36 per cent was funded by the government of Papua New Guinea (PNG Office of National Planning 1999a:1).

In recent years there has been a marked increase in the proportion of donor contributions targeted to priority sectors. This trend is mainly attributable to the Australian Agency for International Development (AusAID), whose project grants rose from K77.3 million in 1995–96 to K294 million in 1998–99 (PNG Office of National Planning 1999b:Table 1). This total is expected to stabilise at around A$300 million from 2000 onwards: worth some K600 million at the present exchange rate. From 2000 to 2002 the Asian Development Bank is projected to make available US$70 million a year—considerably more than has been absorbed from this source in recent years (Asian Development Bank 1999:10).

Total development spending in the priority sectors as a share of total expenditure has shown a marked increase over the last three years from around 12.5 per cent to almost 20 per cent (Figure 1).

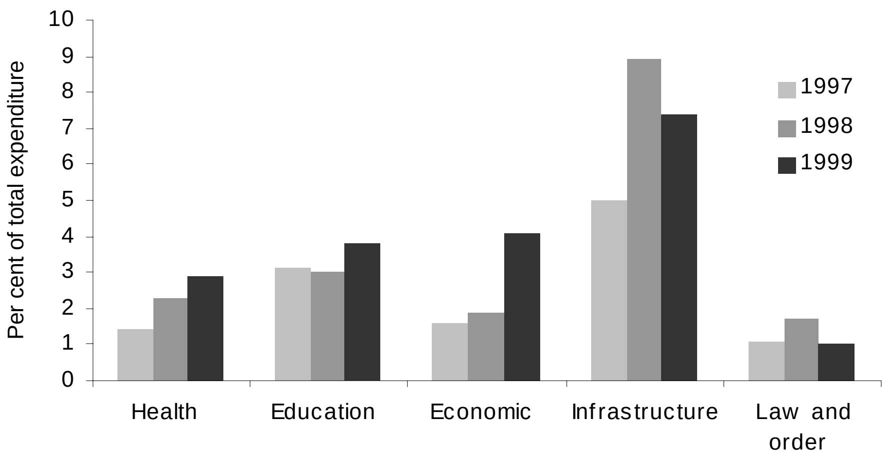
At first glance this trend could be perceived as a very satisfactory outcome. However, closer analysis shows sectors that have received the greatest increases are the economic and infrastructure areas. 'Infrastructure' in 1999 included a K70 million road maintenance allocation, and 'economic' expenditure included the Rural

Figure 1 **Papua New Guinea: total development expenditure in priority sectors as a percentage of total spending, 1997–99** (per cent)



Note: Figures for 1997 and 1998 are actual, 1999 is budgeted.
Source: PNG Department of Treasury and Planning, 1999. 'Review of Medium Term Development Strategy, MTDS, and its Implications for the 1999 Budget', Department of Treasury and Planning, Port Moresby, unpublished:Table 1A.

Figure 2 **Papua New Guinea: investment in priority sectors as per cent of gross expenditure, 1997–99**



Note: Figures for 1997 and 1998 are actual, 1999 is budgeted. Note that 'Law and Order' excludes Defence.
Source: PNG Department of Treasury and Planning (1999, Table 1A).

Development Fund (RDF) (K91 million) and District Support Grants (DSGs) (K54.5 million) (Lasaro 1998a:30,32). Given the very poor condition of some roads, a classification of ‘development’ rather than ‘maintenance’ for the expenditure on road maintenance is probably warranted.

The new Office of Rural Development is responsible for the development of strict guidelines and criteria for the selection of rural development projects that are intended to distribute the rural development funds throughout all 89 districts (Lasaro 1998a:32). Of the DSGs, 40 per cent or K21.5 million was to be made available to members of parliament and the other K33 million to each district through the Joint District Planning and Budget Priorities Committees (Lasaro 1998a:32). However, the prognosis for a healthy flow of information from these programs is not good, given the poor state of recording and collating of expenditures and physical assets at provincial and district level.

The priority sectors of health and education did not receive marked increases in allocations in 1999. Law and order development spending actually declined. However, the Police Project Phase III, funded by AusAID and worth some K17 million in year 2000, will restore to trend the level of development spending to this sector (PNG Department of Treasury and Planning 1999:Table 1A) (Figure 2).

Comparisons of spending by sector cannot be made for years prior to 1997 because it is only since 1997 that donor contributions have been included in the development budget. The programs of provinces and districts that now have increased powers and responsibilities for development (under the *Organic Law on Provincial and Local Governments*) were also included in the development budget from 1997. But even since 1997, the changing nature of the appropriations in the economic and infrastructure sectors obviously pose problems for the measurement of the trends in development expenditure as a whole and by sector.

The inclusion of donor funding and provincial development spending in the development budget signalled that all such expenditures should be brought under one umbrella and that recurrent expenditures are required to match or complement development expenditures. However, there is difficulty in verifying whether operational costs associated with completed PIPs are included in the budgets of line departments and provinces.

Even after the inclusion of donor funding and provincial development spending, the total development budget is still underestimated because expenditure on programs that are financed by public funds under the Tax Credit Scheme (TCS) or Special Support Grants (SSG) in mining areas are not captured. The Porgera Joint Venture alone spent K36.6 million on 248 projects between 1993 and 1999 (Director, Office of National Planning, personal communication). There are two good reasons for keeping tabs on these not insignificant off-budget development expenditures. The first is to provide information that will assist the equitable delivery of services to districts, and the second is for the provision of information to central and provincial governments on the expenditure that will be required to maintain infrastructure after the mine or other resource venture closes. The incorporation of these projects in the planning cycle should not be difficult because the mining and oil companies plan ahead and the Internal Revenue Commission requires accountability. The problem of fully accounting for development expenditure will be exacerbated by the requirement, under the Organic Law, that a development levy of two per cent of resource development costs be paid to the provincial and local level governments hosting projects. Another major area of omission from the development budget actual expenditures is the investment in infrastructure at provincial and local level through the RDF and DSGs.

Cost-benefit analysis is commonly employed by multilateral and bilateral donors to compare projects. A range of projects is tested for rate of return (the cost of a particular project is the opportunity cost of not adopting the next best alternative) as well as for other qualitative criteria. Financial analysis predicts the efficiency and feasibility of cash flows, while economic analysis provides a guide to the real return to the country of the project. Economic theory suggests that investment should be allocated across the different sectors until equi-marginal returns are achieved. The adoption of this efficiency criterion implies a coordinated approach to the allocation of development funds.

The major donors deploy highly skilled people in development project appraisal and selection. Given their rigorous selection of projects, together with the fact that there are a large number of projects possible within the priority sectors, the high priority projects are likely to be identified by the donors, while the government is left to invest in projects that have a lower rate of return. However some of the government's investment will be in the form of counterpart funding—that part of the project expenditure that donors require the government to contribute to. This averages around 10 per cent of project costs. Presumably, the point of counterpart funding is to try to inculcate some local sense of ownership and responsibility for the project.

However, this allocative scenario overlooks the reality of fungibility (World Bank 1998). While the donor may invest in projects with a very high rate of return, what the government does with the money it would have spent—if it were not for the aid—also comes into the equation. The injection of aid, while an addition to the total budget, may have allowed the government to divert resources to some politically-driven area with a very low national benefit. The return to donor intervention is therefore the average of the return to donor projects and the return on the government projects funded with its reallocated resources.

A demonstration of fungibility is the allocation in the 1998 Skate / Lasaro budget of K145.5 million to rural development and district funds (Lasaro 1998a:32). One could be excused from labelling this exercise as pork barrelling to keep the ruling coalition together even though it was sold to the public as a new rural development initiative and was indeed included in the development budget so that development spending was seen to rise.

It can be concluded that while an adherence to program aid by donors can appear to sidestep problems of poor governance, fungibility will deliver a somewhat diluted overall outcome. Fungibility is one explanation why large amounts of aid to Papua New Guinea have failed to generate the level of social benefits expected. This conclusion reinforces the importance for development of improved governance, particularly responsible fiscal and monetary management that will limit reallocations and the dilution of the overall results of public investment.

The medium-term development strategy

In 1996 the Government of Papua New Guinea faced some difficult choices. On the one hand, there were concerns about accommodating the increasing numbers of children in schools, the declining health status of the population and the slow development of the private sector. On the other hand, there was a growing awareness that government funding would be very tight for the foreseeable future. Between the imperatives of development and financial stringency the Medium Term Development

Strategy (MTDS) was born (Papua New Guinea 1996).

Other important influences in the creation of the MTDS were the shifting balance between central and provincial budgets, the contingency transfer of Australian aid from budget support to program assistance, together with the general perception that development performance needed to be sharpened. An additional factor was the desire of the Minister for Planning, the Hon. Moi Avei, to take an initiative in building a vehicle capable of accommodating the large number of new development initiatives that were proposed.

The MTDS's primary goal was broad-based economic growth, within which there would be more opportunity for self-development and material advancement of the nation's population. The five-year policy framework was designed to ensure that

- priority is accorded to the development budget and transfers to the provinces
- priorities are identified within the development budget
- resource allocations are planned several years ahead
- donor contributions are brought into the budget
- monitoring and evaluation procedures are set up.

At its inception the MTDS identified primary health, primary education, transport infrastructure and private enterprise promotion as the priority sub-sectors that the public resource allocation should focus on (Papua New Guinea 1996).

Within the context of the five-year MTDS, a Medium Term Resource Framework (MTRF) was set up, for the three years 1997 to 1999, that projected financial appropriations in the priority sub-sectors.

A committee was to form subsequent strategies within a vision for the next 25 years. The Office of National Planning was then 'to set a clear line from goals through policies to expenditure allocations' (Papua New Guinea 1996:2–2).

It was envisaged that the MTDS would be ongoing, with the PIPs monitored and reviewed for effectiveness and fine-tuned to reflect resource availability. Criteria for project adoption were that where borrowing was undertaken the cost of debt was accommodated, and that where grants were the source of funds they should generate a superior rate of return than alternative projects. The application of these criteria was facilitated by the development of another instrument, a detailed Project Cycle Operational Manual (PNG Office of National Planning 1997).

Of interest here is how the MTRF was structured. The government's first spending priority was the payment of interest; the second was transfers to the provinces; next were the priority development sectors identified under the strategy. After these areas were satisfied, allocations were to be made to other activities, such as the non-priority sectors and the recurrent budget—these latter to be met according to the extent of the remaining funds.

Since 1995, there had also been in place, a Structural Adjustment Program (SAP) overseen by the World Bank. Objectives of the SAP were macroeconomic stability, improved public sector management, and the improvement of the effectiveness of government expenditures. The SAP thus set the scene for macroeconomic and financial stability, while the role of MTDS was to direct expenditure within the SAP's restructured budgetary allocation.

The main elements of the programs specified in the MTRF were

- in health—preventive rural health delivery
- in education—curricula development, teacher training, infrastructure and administration
- in transport—restoring and maintaining existing infrastructure, construct-

ing new infrastructure, coupled with administrative reforms
- in private enterprise—access to credit, access to extension training and development services, and increasing productive research
- in law and order (Papua New Guinea 1996).

The law and order sector was obviously added to the list late in the strategy document and did not carry the justification devoted to the other sectors. The planners had refocused in order to meet the growing economic and social challenge of rising crime. The inclusion in the MTRF's priorities of the law and order sector is not unexpected or indefensible. The strategy's annual and three yearly formulations are designed to reflect changes in the economic, social and political environment. The reality is, however, that the policy approach since the inception of the strategy has been to attempt to solve the law and order problem by increasing economic growth and jobs. Hence the appropriations for law and order—both for recurrent expenditure and, as we saw above, for development—actually fell in 1999. This strategy has not boosted investor confidence.

Implementation of public investment policy

A major impediment to the setting of investment priorities by the Government of Papua New Guinea is the lack of verifiable performance indicators by sector. Indicators could be developed to measure financial, physical and social performance. For example, in health, the indicators could include trends in development expenditure, the number of health workers and number of health facilities by location, and trends in mortality and morbidity by province. For law and order the physical manifestations of development expenditure might include the number of police houses built, the number of trained police deployed by location, and performance indicators could include crime and apprehension rates. While this information is undoubtedly available from the line departments it is not available in a form that can be readily used by the National Planning Office. Work needs to be done on the development of appropriate indicators and putting them to good effect.

There has been devolution of many functions and responsibilities for development investment to the provinces. In order to make plans and decisions at a central level, the availability of financial and physical data from provinces is vital, for reasons of both efficiency and equity. However, the Department of Treasury and Planning has only limited data at its disposal. In a review, the 1998 data on recurrent and development expenditure, by priority sector, was only available from five provinces while partial data was available from nine provinces, and no data was forthcoming from six provinces (PNG Department of Treasury and Planning 1999:Table 1).

Donors are increasingly dealing directly with implementing agencies and provincial and local governments. This improves their efficiency by bypassing the restraints in the central administrative system. However, it does not facilitate coordination in terms of national priorities and programs. Compounding the problem of obtaining information on development investment in the provinces is the lack of information from the Office of Rural Development and on regional expenditures under the RDF and the DSGs.

It was suggested above that donors usually satisfy themselves that their projects have a high rate of return before they are put forward to the government. However, the ranking procedure of donors gives no indication of how projects compare with projects in other programs or to the returns available on scarce Papua New Guinean resources. Nor does donor appraisal give any indication of the ability of the government to implement the projects efficiently. The establishment of priorities through some formal procedure is required in order for the government to assign total development resources efficiently and effectively. There is strong evidence that projects and programs are donor driven in the absence of such procedures. However, a word of caution is necessary concerning the considerable amount of resources that are required to appraise projects fully. In practice, there needs to be a balance established between the requirement for efficiency in investment and the opportunity cost of the diversion of scarce human resources of the Office of National Planning to the appraisal process. The best way to deploy scarce government funds is to coordinate projects within organised, prioritised broader sectoral programmes and to ensure that there is sufficient capacity within government to efficiently and effectively implement the projects and programs.

Cancellation of development projects by donors has not been uncommon. One of the major causes of cancellation is the failure of the government to provide counterpart funding. Faulty budgeting and lack of fiscal restraint have been the underlying causes of the inability of the government to generate the monies required to access donor funding. The delays in or absence of counterpart funding have the most impact where loans are involved, because the loan agreements are legal documents.[1] In contrast, AusAID is known to overcome the lack of counterpart contributions by itself providing the counterpart funds.

In the case of the Asian Development Bank, a major player in the priority sectors, counterpart funding will become an even more critical issue in capturing investment because the Bank has set a new upper limit to its funding of 40 per cent of total project costs. This compares with limits of 60 per cent in 1998 and 55 per cent in 1999 (Asian Development Bank 1999:3). The government will now need to budget to find 60 per cent of a total of ADB assistance in excess of US$70 million in each of the next three years.

Projects earmarked under the development budget should not lack counterpart funding. The purpose of the MTRF is to ensure that the priority areas do in fact receive priority in the appropriation of funds. As a corollary, areas that are not deemed priority should bear the brunt of any spending cut-backs.

In 1999, the effects of poor budget formulation and the lack of fiscal restraint on the development budget became very clear. Because the government exhausted its operational funds, and omitted to fund a range of statutory authorities, there was a transfer of K33 million out of the Road Maintenance Program in the first half of 1999 to other areas—including the recurrent budget (PNG Office of National Planning 1999a:3).[2] One of the areas funded by this transfer was the high priority Education Development Project (Box 1). Because of its obvious priority this project should have had sufficient funds both allocated to it and found.

Other transfers out of development funds this year include K4.5 million out of RDP funds and K2.6 million out of agricultural schemes (part of the priority 'economic' sector) to statutory bodies that were under-funded or zero funded. Altogether, the loss of investment from the development budget to recurrent spending was some K42 million in the first half of 1999 (PNG Office of National Planning 1999a:3).

The slow procurement process for goods and services also delays project implementation. Procurement problems hinge on the interpretation of the Public Finances (Management) Act with respect to donor-funded projects. Some project officers deal with the government's

Box 1

Education Development Project of the World Bank

Balance	US$18.1 million
Commencement	1993
Authorised for disbursement in 1998	US$ 18.1 million
Disbursed in 1998	US$1.3 million
Estimated disbursement in 1999	US$2.6 million
Original closing date	December 1997
New closing date	December 2001

Purpose

- books for primary and secondary schools
- upgrading facilities
- training course materials equipment, housing
- policy studies.

Performance

- delayed project
- delayed and insufficient counterpart funding
- poor accounting
- interference by the Central Supply and Tenders Board, resulting in mis-procurements.

Suspension of project is imminent.

Note: Counterpart funds for this project in 1999 were found by diverting funds from the Road Maintenance Program of the Development Budget.

Source: World Bank, 1999. *Papua New Guinea Country Portfolio and Implementation Performance FY99 Mid-Year Review, Draft Report for Discussion*, Pacific Islands Country Management Unit, World Bank, Washington, DC.

tendering bodies (such as the Central Supply and Tenders Board), while others bypass these bodies and procedures, and follow donor guidelines, which are usually very explicit. Exemption for donor-funded goods and services from tender board processes—which are in any case subject to donor procurement rules—would speed up the procurement process.

Other deficiencies in management are caused by the lack of adherence—in respect of project accounts—to fundamental accounting and reporting principles. Apart from the coordination between the implementing departments and the Office of National Planning, there is also the importance of the timely provision of audited departmental accounts to donors. It has already been mentioned that the establishment of the legal status of loans has led to substantial delays. However, delays are not confined to loan projects; they are also common with respect to aid projects.

Table 1 shows the projects that have exceeded the project cycle of five years

Table 1 **Public investment projects delayed**

PIP No.	Project name	Executing agency	Source of funding	Proposed start year	Proposed year of completion
	EDUCATION SECTOR				
1134	Expansion of Upper Secondary Schools	Dept of Education	PNGgovt/EU/ AusAID/EU/ EEC/JICA	1992	continuing
1171	Secondary Education Scholarships	Dept of Education	AusAID/NZ	1989	2001
1373	Higher Education Project	Dept of Education	V/ADB	1993	1999
1465	Education Development Project	Dept of Education	WB/PNGgovt	1993	1998
1807	Primary and Secondary Teacher Education	Dept of Education	PNGgovt/Donor	1993	continuing
	HEALTH SECTOR				
1138	Redevelopment of Hospitals	Dept of Health	JICA/PNGgovt	1988	continuing
1158	Third Rural Health Services	Dept of Health	ADB/PNGgovt	1992	1997
1229	Construction of Health Staff Housing	Dept of Health	PNGgovt/ADB	1990	2000
1391	Medical Officers, Nurses, Allied Health Training	Dept of Health	AusAID/ PNGgovt	1992	1999
1443	Population and Family Planning	Dept of Health	WB/ADB/ PNGgovt	1993	1999
	INFRASTRUCTURE SECTOR				
1157	Provincial Roads Assistance Programme	Dept of Works & Civil Aviation	ADB/PNGgovt	1993	1998
1381	National Bridge Replacement Programme	Dept of Works & Civil Aviation	AusAID/ PNGgovt	1988	2000
1603	Improvement of National Airports Project Phase II	Dept of Works & Civil Aviation	PNGgovt	1992	1997

Notes: EU=European Union; EEC=European Economic Commission; JICA=Overseas Economic Cooperation Fund of Japan; WB=World Bank; NZ=New Zealand.
Source: Lasaro, I., 1998a. *Economic and Development Policies, Volume 1*, Government of Papua New Guinea, Port Moresby.

because of delays due to a variety of causes related to management.

These delays incur costs and reduce the benefits of projects—administrative costs mount, benefits are discounted, and other new projects with a high social return are precluded. The World Bank Education Development Project has suffered a four-year delay due to a plethora of restraints, including lack of counterpart funding, poor accounting and procurement delays (see Box 1).

The combined effect of delays in existing and new projects resulted in negative flows of aid in recent years from major donors. In the five years 1993 to 1998 there were negative flows to Papua New Guinea from the Asian Development Bank in three years, and in the case of the World Bank there were negative flows in four years (Asian Development Bank 1998:19).

The cancellation of projects, delays to projects, and the fact that some projects are never begun, are enormous problems demanding a full analysis of causes and remedies. While one does not need to look too far for the internal causes, there may also be external causes. We suggest that there are linkages between the problems of formulation and implementation of projects, and the volume and nature of aid.

The question is whether the government can be expected to manage and absorb the increasing volume of development expenditure. We have already noted that AusAID grants, which make up a large proportion of the investment program, are being directed specifically at the priority sectors in the development budget. The other major donors and the government itself are also increasing their funding to those sectors. However, at the same time, Australia has almost entirely withdrawn the hitherto considerable support from the recurrent budget. But it is the line departments, particularly health and education, the provincial administrations and the Office of National Planning—whose funding is now more difficult because of the cutbacks in recurrent budget—that must manage the massive increases in targeted spending. Rapid turnovers of staff and changes at the top have weakened public service planning capacity and morale (Asian Development Bank 1998). Another outcome of the increase in project spending, and in associated infrastructure, is the growth in maintenance spending that will be required to be sourced from a tightly constrained recurrent budget.

Despite the praiseworthy development of planning methodology and the targeting that has taken place there has been a marked decline in the ability of the government to efficiently manage its growing investment program. We suggest that a lack of absorptive capacity is a contributory factor.

Training, ownership, and post-project management issues are at the heart of the general policy of staffing donor-funded projects with national counterparts. However counterpart personnel are experiencing difficulty in keeping abreast of donor projects. There is anecdotal evidence that counterpart policy has broken down completely in some programs, with only a token presence mounted. Another manifestation of exhausted absorptive capacity is that technical assistants in institutional strengthening aid programs often find themselves taking the role of line department personnel and implementing projects, instead of confining themselves to the role of adviser.

Conclusions

Low human development indicators and poor economic growth are the drivers of a large public investment program mainly funded by donors. AusAID, the largest donor, has now swung almost its entire aid contribution to priority sectors identified in the Medium Term Development Strategy.

Fungibility, hand-in-hand with poor budget performance, together with a 'smoke and mirrors' approach to development budgeting, has undoubtedly diluted development benefits. The macroeconomic and financial instability, that came hard on the heels of natural disasters and a downturn in commodity prices, severely weakened the contribution of the private sector to economic growth. These factors, together with the inefficiency in the implementation of projects by the government, will undoubtedly lead to disappointing socioeconomic outcomes.

The capacity and morale of the government has been severely weakened by the political as well as the financial turmoil that has engulfed the country over the last two years. Against this background, the capacity of the public service to absorb the rapid growth in concentrated investment is questioned. While the framework for public investment planning is present—in the Medium Term Development Strategy—it needs to be put into effect. To prioritise and evaluate public investment, financial and physical data must be tracked down, and off-budget spending brought into the planning framework. The problems of procurement, accounting and auditing also need addressing. It is difficult to see how this will be done without a major revamp of the Office of National Planning. Moreover, the exhaustion of absorptive capacity suggests that Australia and Papua New Guinea need to review the treaty between them that guarantees the annual volume of aid, and instead consider a more strategic approach.

Notwithstanding the foregoing, public investment planning will be severely limited in its impact unless the economy is stabilised and there are sufficient funds to operate government. The World Bank and the International Monetary Fund have renewed their partnership in economic management with the newly-formed Morauta government. These institutions will no doubt press on the government a revived Structural Adjustment Program as a condition of their assistance in the year 2000 budget and beyond. A revived Medium Term Development Strategy and upgraded public investment planning will complement this adjustment process.

Notes

1 The investment program has been most severely affected in the recent past by the cancellation of Asian Development Bank (ADB) loans. No less than US$31 million in loans were cancelled in early 1998, and a further US$12 million will be cancelled this year. Moreover, undistributed balances on ADB loans—a symptom of delays with various causes—totalled US$72 million at the end of 1998. In the health sector, K30 million was allocated by the ADB in 1998, but only K14 million was spent (Asian Development Bank 1999:2,3).

2 The inclusion of road maintenance in the 1999 development budget (characterised by the K70 million earmarked for the Road Maintenance Program) was applauded by the ADB (1999:2), as was this program's 'protection' from reallocation conferred by being included in the development budget.

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