Structural Adjustment Programs

Experiences from the forestry sector

Ruth Turia

The PNG forestry sector has been labelled a controversial sector both nationally and internationally. This is not because there are not enough forest resources (timber and other forest produce) for the use of the citizens and for development by the government for the national interest. It is not because there are no government policies or legislation to regulate the development of these forest resources. Many reports (Barnett 1989; World Bank 2000) suggest that the controversy in the forestry sector has come about because of corruption, the land tenure system and the lack of resources (manpower, finance) both at the local level and at the national level.

Over the years, the sector has enjoyed a steady increase in both the volume harvested and the value (monetary benefit) generated from the development of the forest resources. At one stage it was the second largest revenue earner for the government, behind agriculture. This has now changed with the development of resources in the mineral sector—including oil—placing forestry as the third largest revenue earner. Because of its contribution to the government revenue, necessary policies were developed to regulate its development. This however has not provided that impetus for the sustainable management of the forest resources of Papua New Guinea.

Barnett (1989) documents the many examples of corruption and poor management in the sector. Further, Dubash and Filer (2000) outline the events
leading to the conditionalities that have been attached to the forestry sector under the Structural Adjustment Program (SAP) (see Appendix 1). This paper will highlight some of my personal experiences1 with the questions of ‘how’ and ‘why’ the forestry sector was identified as a target sector under the SAP in Papua New Guinea.

Ownership of trees and its appropriation

It is common knowledge that the trees growing on customarily owned land (almost 99 per cent of the land area in Papua New Guinea is customarily owned) are owned by the people of Papua New Guinea. In order for the Papua New Guinea government to have access to the trees and manage the forests as enshrined in the Constitution, it enters into an agreement with the customary owners for the ‘timber rights’. Currently, the state has ‘management rights’ over 10.5 million hectares of forest out of the 11.9 million hectares classified as production forest areas (see Figure 1). Table 1 gives a breakdown of where these forest areas are located in Papua New Guinea. For an understanding of what these classifications mean, see Appendix 2.

Why the reform?

In the very comprehensive study of the forestry sector by Justice Thomas Barnett under a Commission of Inquiry it was stated that

- local processing is being allowed to decline alarmingly
- there is little emphasis on reafforestation
- sustainable yield forest management is not being practised
- decentralisation policy is not being implemented
- foreign investment is being allowed to dominate the timber industry and now compromises Papua New Guinea’s national integrity
- log exports have been allowed to increase to massive proportions and the 1979 guidelines to control that situation are not being followed (1989:340).

Barnett further highlighted the corruption in the sector leading to some politicians and bureaucrats (including a former deputy prime minister) losing their jobs. His final conclusion was that the forestry sector is out of control, leading to widespread environmental and social damage and a lack of proper economic returns to either the state or the landowners.
This conclusion led the PNG government to request a review of its forestry sector under the auspices of the Tropical Forest Action Plan (TFAP). This is when the World Bank became involved in the Papua New Guinea forestry sector as it was the lead agency of the review team of an inter-agency mission that commenced its work in Papua New Guinea in May 1989. The task of the TFAP review mission was to identify the problem areas (many already identified by Barnett) and to recommend proposed actions to address these. The main problem areas according to the review team were that Papua New Guinea...
Table 1  **Summary of acquired forest areas, by province**

<table>
<thead>
<tr>
<th>Region/province</th>
<th>Total no. current acquired timber areas</th>
<th>Total area ('000 ha)</th>
<th>No. areas allocated by type</th>
<th>Total area ('000 ha)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Total no. current acquired timber areas</td>
<td></td>
<td>TRP  LFA  FMA</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Southern</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western</td>
<td>9</td>
<td>2,028</td>
<td>5 - -</td>
<td>739</td>
</tr>
<tr>
<td>Gulf</td>
<td>12</td>
<td>2,536</td>
<td>3 - 5</td>
<td>2,401</td>
</tr>
<tr>
<td>Central</td>
<td>15</td>
<td>483</td>
<td>3 - 2</td>
<td>240</td>
</tr>
<tr>
<td>Milne Bay</td>
<td>5</td>
<td>202</td>
<td>1 - -</td>
<td>88</td>
</tr>
<tr>
<td>Oro</td>
<td>6</td>
<td>358</td>
<td>2 - 1</td>
<td>102</td>
</tr>
<tr>
<td>Subtotal</td>
<td>47</td>
<td>5,607</td>
<td>14 1 7</td>
<td>3,569</td>
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<tr>
<td><strong>Momase</strong></td>
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<tr>
<td>West Sepik</td>
<td>9</td>
<td>681</td>
<td>2 1 -</td>
<td>326</td>
</tr>
<tr>
<td>East Sepik</td>
<td>6</td>
<td>631</td>
<td>- 2 -</td>
<td>80</td>
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<td>Madang</td>
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<td>384</td>
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<tr>
<td>Morobe</td>
<td>14</td>
<td>277</td>
<td>4 - 2</td>
<td>120</td>
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<tr>
<td>Subtotal</td>
<td>39</td>
<td>1,9723</td>
<td>11 3 2</td>
<td>781</td>
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<tr>
<td><strong>New Guinea Island</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>West New Britain</td>
<td>57</td>
<td>1,507</td>
<td>13 12 -</td>
<td>1,106</td>
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<tr>
<td>East New Britain</td>
<td>26</td>
<td>568</td>
<td>14 - -</td>
<td>375</td>
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<tr>
<td>New Ireland</td>
<td>17</td>
<td>562</td>
<td>5 - -</td>
<td>223</td>
</tr>
<tr>
<td>Manus</td>
<td>2</td>
<td>52</td>
<td>1 1 -</td>
<td>52</td>
</tr>
<tr>
<td>North Solomons</td>
<td>11</td>
<td>97</td>
<td>- - -</td>
<td>-</td>
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<tr>
<td>Subtotal</td>
<td>113</td>
<td>2,785</td>
<td>33 13 -</td>
<td>1,756</td>
</tr>
<tr>
<td><strong>Highlands</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Southern</td>
<td>10</td>
<td>39</td>
<td>6 - -</td>
<td>37</td>
</tr>
<tr>
<td>Eastern</td>
<td>-</td>
<td>-</td>
<td>- - -</td>
<td>-</td>
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<tr>
<td>Western</td>
<td>13</td>
<td>83</td>
<td>- - -</td>
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<tr>
<td>Simbu</td>
<td>-</td>
<td>-</td>
<td>- - -</td>
<td>-</td>
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<tr>
<td>Enga</td>
<td>6</td>
<td>43</td>
<td>- - -</td>
<td>-</td>
</tr>
<tr>
<td>Subtotal</td>
<td>29</td>
<td>165</td>
<td>6 - -</td>
<td>37</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>228</td>
<td>10,530</td>
<td>64 17 9</td>
<td>6,143</td>
</tr>
</tbody>
</table>

SAPS in the forestry sector

- lacks adequate information on the growth, yield or even the extent of the forest resources
- has a major breakdown in the effective management of the forest resources—particularly decisionmaking framework to link the central and provincial governments and landowners
- suffers serious losses to revenue from poor monitoring of logging and marketing activities, for example, transfer pricing
- lacks the infrastructure to go into downstream processing—therefore should not introduce a complete ban on log exports
- faces serious environmental problems as a result of uncontrolled logging activities—hence the need for proper land use
- lacks appropriate institutional structure and adequately trained manpower to design or implement forest management policies (World Bank 1990).

One can appreciate now why the PNG government opted for a particular kind of reform in the forestry sector. It is important to note though that a number of reforms were already taking place or in place before the PNG government sought further assistance from the World Bank through the SAP.

The major outcome of this reform was that a new forestry policy with ensuing legislation was adopted by parliament in 1991. This legislation was in part designed such that it instituted a board to oversee the management of the forest resources instead of a state minister dealing with forests directly. The new forestry legislation unfortunately was not gazetted until June 1992, hence it was not of effect immediately. The Papua New Guinea Forest Authority (PNGFA) is a result of this legislation.

Even with these reforms, the World Bank and some sections within the PNG government at large, and the PNGFA in particular, saw it necessary to insist on some conditionalities being tied in to the forestry sector (see Appendix 3). It is difficult to see the rationale for the PNG government coming up with or agreeing to such conditions when it is evident that many of these conditions (for example, the Logging Code of Practice) are procedural matters that the PNGFA could develop and implement if it sees the necessity. But as Filer (2000) asserts, there were certain reformist bureaucrats in the PNGFA who felt that these conditions should be attached to the SAP. My perspective on this matter is that I would only concur or agree to certain conditions if it absolutely has to be done and which the PNGFA has been unable to get the government to agree on—for example, the condition relating to introducing amendments to the 1991 Forestry Act.
In considering further some of those conditions (Appendix 3 and Appendix 4) and the events that led to the present situation, where the World Bank insists on a further project—the Forestry and Conservation Project (FCP)—being included as a condition in the SAP, I am questioning the wisdom of those Papua New Guineans both within the Department of Finance and Planning (DoFP) (then) and the PNGFA. The FCP is now in place and only time will tell whether it will deliver the goods. Already there are bureaucrats within the PNGFA asking just what this project will deliver. To this day, there are still concerns, going as far as the current prime minister, who in 1999 said in parliament that ‘[g]overnance has been particularly poor in the area of forestry with the side effect of promoting corrupt practices and undermining environmental sustainability...’ (Budget Speech to Parliament, November, 1999).

I agree with the Prime Ministers’ sentiments only in the context that there is corruption and mistrust within and between all sectors of the community that are involved in a forestry project. The present policy and legislation have come a long way in instituting some order (governance) within the forestry sector. What is still a concern is that not many Papua New Guineans are aware of the changes, which effectively prevents them from becoming involved in addressing or being a party to the changes.

Conclusion

Given the property rights regime in Papua New Guinea, it is hard to understand why there is corruption when the trees are owned by Papua New Guineans. It is even harder to understand why there are so many ‘interest groups’ involved in the forestry sector.

Due to the way the conditionalities (Appendix 3 and Appendix 4) were framed, there has been some scepticism about their intent and who proposed them. It is easy to assume that the Department of Finance and Planning was responsible for suggesting all these conditions as the policy matrix comes from that office. This is not the case, as I learnt on in July 2002. The World Bank and the many consultants (mainly expatriates), including some expatriate bureaucrats within the government hierarchy, suggested many of these conditionalities. Their wisdom is not being questioned but rather why the Papua New Guineans within the government hierarchy then and now cannot really think and talk for themselves—for the betterment of Papua New Guinea. This is the challenge for the Kumul Scholars International.
Appendix 1  Chronology of Adjustment and Forestry Reforms in Papua New Guinea


1987  Barnett Commission of Inquiry initiated
1988  Papua New Guinea requests Tropical Forest Action Plan (TFAP)
July 1989  Final Report of Barnett Inquiry released
January 1990  National Alliance of NGOs (NANGO) established
February 1990  Final TFAP report
April 1990  TFAP Roundtable
November 1990  Draft Forest Policy prepared
July 1991  Parliament enacts Forestry Bill
TFAP renamed National Forestry and Conservation Action Program (NFCAP)
April 1992  World Bank expresses concern over delay in gazettal of Forestry Act
June 1992  Forestry Act gazetted


August 1993  Bill to amend the Forestry Act in favour of loggers introduced in parliament
March 1994  Amendments to Forestry Act defeated
Finance Minister introduces mini-budget to address growing fiscal crisis

Chan Government (September 1994–July 1997)

February 1995  Papua New Guinea reaches agreement with World Bank and IMF on an Economic Recovery Program (ERP)
July 1995  World Bank mission arrives to finalise ERP conditions
NGOs and students protest ERP’s land reform conditions
August 1995  World Bank approves ERP and releases first tranche
February 1996  Forest Minister proposes amendments to Forestry Act to weaken Forest Board
World Bank mission departs prematurely after failure to implement first tranche conditions
April 1996  World Bank serves 90 day notice of default of ERP  
Prime minister announces opposition to new forest revenue system, which is included in ERP conditions  

July 1996  Parliament approves Forest Minister’s amendments to Forestry Act  

August 1996  World Bank applies pressure for government to rescind amendments  

October 1996  Parliament withdraws amendments to the Forestry Act; World Bank extends loan agreement  

January 1997  Second and final tranche of ERP released  


August 1997  WB staff set about negotiating a detailed policy matrix for the consideration of the new government as part of the second phase of the SAP which was later known as the Social and Economic Development Program (SEDP)  
There were 171 conditions in all attached to the SEDP, and 26 of these were specifically directed to the ‘forestry and conservation’ sector  

September 1997  World Bank mission arrives in Papua New Guinea to design the Forestry and Conservation Project (FCP)  

November 1997  World Bank submits a project concept document (for the FCP) to the Global Environment Facility (GEF) for co-financing  

February 1998  A pre-appraisal mission from the World Bank arrives in Papua New Guinea to discuss further the FCP  

August 1998  Further consultation between Papua New Guinea and the World Bank on the FCP  

September 1998  FCP is revised and presented to the GEF  

October 1998  The document is made available to national stakeholders  

Morauta Government (August 1999–April 2003)
Appendix 2  General forest classifications of Papua New Guinea

Papua New Guinea’s forest resources are classified under five categories:

- **Production forest**, comprising currently acquired and identified production forest yet to be acquired
- **Protection forest**, comprising protected areas that have been identified and gazetted by the Department of Environment and Conservation as being areas with high conservation and biodiversity values
- **Reserve forest**, comprising forest areas yet to be classified (as productive, protection or salvage forest) pending future decision (includes potential production forest areas, montane forest with slopes greater than 30° and inundated areas)
- **Salvage forest**, refers to forest that is cleared for other uses, for example clearance for agricultural development
- **Land suitable for afforestation**, refers to areas of grassland and severely disturbed natural forest that have been identified and rights acquired from the landowners for the purpose of establishing a forestry estate.

Appendix 3  Sustainable development conditions in the ERP policy matrix

- Refrain from introducing amendments to the Forestry Act of 1991 which will in any way reduce or qualify the present allocation of powers and responsibilities to the board, or the Authority, for the approval, issue or suspension, or modification, of timber licenses, permits or authorities.
- Ensure that areas of natural forests which are used for log production are managed on a sustainable basis. For new projects, limit the annual harvest to one thirty-fifth of the net loggable area within each project. For existing operating projects, disallow unused permitted cuts from being brought forward, and refrain from extending or expanding existing projects unless they conform to the same sustainability requirements as placed on new projects, inclusive of the extension or expansion; and use negotiation, project review, and best endeavours to limit the aggregate annual harvest from currently existing operating concessions and extensions to 1994 levels. For projects with exceptional circumstances in 1994, allow minimum cuts as specified in the permits and enforce environmental protection standards set by the Department of Environment and Conservation.
- Introduce in the context of the 1996 budget, but with an effectiveness date of no later than 1 January 1996, a logging revenue system applied to exported round logs and comprising marginal tax rates for government revenue, inclusive of a forest levy, and royalties to be distributed to landowners. The marginal tax rates are cumulative and apply to each increment of f.o.b. log export prices (see table A3.1). Landowner royalties would be absolute fees based on the f.o.b price of the exported log (see Table A3.2).
- In addition, landowners would be entitled to negotiate additional monetary or non-monetary premia. These marginal tax rates and royalties would be applied to domestically processed logs for commercial purposes as soon as practical, but no later than 30 June 1996.
- Provide the Forest Authority with an operating budget equal in real terms to that allocated in 1995, in timely disbursements. Provide separate and adequate funding for the existing surveillance contract.
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or any additional activities required for surveillance or management of forest resources and approved by the NEC [Cabinet] of the Department of Finance and Planning.

- Ensure that the Forest Authority formally adopts a forestry and operational code of conduct (the Suva Code of Conduct or, once complete, Papua New Guinea’s Code of Logging Practice) for implementation in the field.


<table>
<thead>
<tr>
<th>Table A3.1</th>
<th>Marginal tax rates</th>
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<tbody>
<tr>
<td>f.o.b. price range</td>
<td>per cent</td>
</tr>
<tr>
<td>up to K90/m3</td>
<td>15</td>
</tr>
<tr>
<td>K91–110/m3</td>
<td>+30</td>
</tr>
<tr>
<td>K111–130/m3</td>
<td>+50</td>
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<tr>
<td>K131–150/m3</td>
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<td>K151–200/m3</td>
<td>+60</td>
</tr>
<tr>
<td>Above K200/m3</td>
<td>+70</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table A3.2</th>
<th>Loyalty rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>f.o.b. price range</td>
<td>Royalty rate</td>
</tr>
<tr>
<td>up to K90/m3</td>
<td>K8/m3</td>
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<td>K91–110/m3</td>
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<td>K151–200/m3</td>
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</tr>
<tr>
<td>Above K200/m3</td>
<td>K23/m3 plus 7.5 per cent of f.o.b prices above K200/m3.</td>
</tr>
</tbody>
</table>
Appendix 4 Conditions to be met before the release of first tranche

- Introduce independent inspection of all aspects of proposed and ongoing forest operations, funded by operators under levy or other arrangements.
- Introduce significant performance bonds for new timber operations.
- Conduct a comprehensive review of landholder participation in resource use decisionmaking. Determine an adequate process for landholder representation and participation prior to allocation of resource areas to FMA or other production uses.
- Gazette Fairness [of] Transactions Act, 1993 to allow landowner victims of unfair contracts to have court reviews of contracts. Submit an action plan with priorities, activities and budgets to Departments of Finance and Personnel Management and to Parliament.
- Adequately fund Department of Environment and Conservation to carry out agreed priority functions until new EPA is in place.

Conditions to be met before release of second tranche

- Government to initiate independent forestry field inspection operations. Inspection results to go to Environmental Protection Authority, Forest Industry, Forestry Board, landholder groups and public.
- Implement recommendations of the logging cost of production study, including tax and incentives structure for round log exports and processed logs.
- Initiate a consultative process in which landholders will be advised of land use options and views recorded in advance of specific negotiations of FMA or other resource projects.
- Expand roles/functions of Forest Authority to include other areas of forest management. Amend Forestry Act and regulations through technical assistance.
- Begin implementation of new forestry consultation arrangements as
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per objectives and in line with results of landholder participation review.

- Implement recommendations of the landowner benefit study, including royalty rates with shortfalls from 1 July 1996 to be collected.

- Review environmental legislation and regulations so as to permit establishment of Environmental Protection Authority, which is mandated to determine environmental acceptability of resource projects prior to approval by line ministries. Consultancy to identify [terms of reference] to design necessary legislative change, determine basic core functions of EPA and determine optimal funding arrangements.

- Secure Cabinet approval of EPA, designated as a Statutory Body with its own board and cabinet minister. Submit EPA legislation to parliament.

- Encourage/support alternative development options that are environmentally friendly, for example, eco-forestry, sustainable logging and eco-tourism to minimise forest depletion and pollution.

- Develop procedures/regulations to protect and grant legal status to identified ICAD [integrated conservation and development] sites and other community initiated conservation areas.

- Introduce new legal basis for logging industries to be certified by independent and performance based entities.

- Set up a Conservation Transition [sic] Fund. Implement the program for an unspecified number of acres in 3 identified potential forest areas.

- Establish a Government environmental levy based on user pays principles to recover resource project assessment. Formulate a budget transfer strategy to cover other operating expenses.

- Develop capacity within [National Planning Office] inter-departmental land use committee to identify conservation areas which will allow protection of biodiversity in 25 per cent of each forest type.

- Require Forestry Board’s approval for any large-scale project involving significant clear felling of forests, such as agricultural conversions, before project startup.

- Develop capacity to consult and negotiate with landowners to implement protected area management.

References


Notes

1 I was formerly an employee of the PNG Forest Authority and was dealing with bilateral/multilateral aid programs and projects. I resigned from the PNG Forest Authority in 1999.

2 TFAP is an international coordinating mechanism for halting the destruction of tropical forests, and promoting their sustainable use for the economic and social benefit of people.

3 This is not the first time for the World Bank to be involved in the PNG forestry sector. It was first involved in 1963 under the International Bank for Reconstruction and Development (IBRD) which recommended that Papua New Guinea had abundant forest resources that may be developed to contribute to the country’s economic development.

4 From question to Daniel Weise at KSI 2002 Conference.