

**FOREST INDUSTRIES DEVELOPMENT STUDIES
PAPUA NEW GUINEA**

ITTO PROJECT PD 108/90 REV.1 (I)

PROJECT COMPLETION REPORT

Prepared by:

Papua New Guinea Forest Authority

for:

International Tropical Timber Organization
Yokohama, japan

July 1994

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Appendix 1: External Audit Report

1. Project Identification and Synthesis of the Analysis

1.1. Project Identification

The project identification is as follows:

- | | | | | | | | | | |
|--------------|--------------------------|---|--|-------|------------------|--------------|-------------------------|--------|------------------|
| (a) | Title | : | Forest Industries Development Studies | | | | | | |
| (b) | Serial Number | : | PD 108/90 Rev. 1(I) | | | | | | |
| (c) | Executing Agency | : | General Woods and Veneers Consultants International Ltd, Longueuil, Quebec, Canada (Project Leader), and:
Nawitka Resource Consultants Ltd
Victoria, British Colombia, Canada | | | | | | |
| (d) | Host Government | : | Government of the Independent State of Papua New Guinea (GoPNG) | | | | | | |
| (e) | Host Agency | : | Papua New Guinea Forest Authority (PNGFA) | | | | | | |
| (f) | Starting date | : | End of July 1992 | | | | | | |
| (g) | Team Leader Mobilisation | : | September 1992 | | | | | | |
| (h) | Actual Duration | : | 20 months | | | | | | |
| (i) | Actual project Costs | : | <table border="0"> <tr> <td style="padding-right: 20px;">ITTO:</td> <td style="text-align: right;">\$ US 460,000.00</td> </tr> <tr> <td style="padding-right: 20px;"><u>GoPNG</u></td> <td style="text-align: right;"><u>\$ US 118,340.00</u></td> </tr> <tr> <td style="padding-right: 20px;">Total:</td> <td style="text-align: right;">\$ US 578,340.00</td> </tr> </table> | ITTO: | \$ US 460,000.00 | <u>GoPNG</u> | <u>\$ US 118,340.00</u> | Total: | \$ US 578,340.00 |
| ITTO: | \$ US 460,000.00 | | | | | | | | |
| <u>GoPNG</u> | <u>\$ US 118,340.00</u> | | | | | | | | |
| Total: | \$ US 578,340.00 | | | | | | | | |

1.2 Synthesis of the Analysis

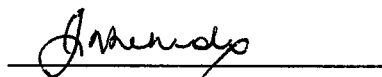
- (a) Specific Objectives Achievement : Totally Realised
- (b) Outputs : Realised, plus many additional not initially planned in the project;
- (c) Schedule : Delayed but not seriously - Delays beyond the responsibility of the Executing Agency
- (d) Actual expenditures: As planned.

1.3 Responsible for the report

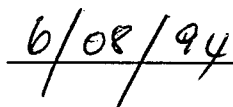
Name : Ms Jean Kekedo, OBE

Position : Managing Director
Papua New Guinea Forest Authority

Signature of responsible:



Date:



2. Background Information

2.1 Pre-Project Situation

The World Bank led a review of the Papua New Guinea forestry sector in early 1989 under the auspices of the Tropical Forestry Action Plan (TFAP). In February 1990, it presented its final report to the Government of Papua New Guinea, where it outlined many proposed projects for external funding to assist GoPNG to properly manage the conservation and utilisation of its forest resources. For Papua New Guinea, the programme is now known as the National Forestry and Conservation Action Programme (NFCAP).

The TFAP report for PNG refers to the need to study closely the economic feasibility of industries based on forest resources, before formulation of any major policy decisions on the sector, such as imposition of log export bans, introduction of special incentive packages, and so on.

Presently the natural resources of PNG are exploited mostly for the export of raw logs - there are currently about 10 sawmills of varying sizes condition and production capability, one plywood mill and one chipmill in PNG as compared to about 84 log exporters. Nearly 98% of the 1992 log exports were controlled by non-PNG interests, and about 86% of all log exports were controlled by just one affiliated commercial group.

There was suggestion that the PNG processing sector is not internationally competitive, with high internal costs, a volatile tenure system and the diverse nature of the forest resource being contributory factors.

This situation required a more systematic study as it may indeed be related to the decline of processing capability since 1979 when the forest policy was changed to encourage log exports.

Furthermore, in 1992, a new Government was elected into power in PNG. In response to the Barnett Commission of Enquiry into the Forestry Sector of the mid 1980's, a new Forest Act came into force on 25th June 1992. The Department of Forests was legally disbanded and a new National Forest Service was being formed under the watchful eye of a new National Forest Authority as constituted by a Board. The decentralised Provincial Forestry systems are again being centralised under the National Forest Service. The Council of Forest Industries was disbanded. The Local Forest Dealings Act was revoked. In general, 1992 saw the start of fundamental changes being made in the forest sector in PNG.

2.2 Specific Objectives and Outputs

The project was in line with the country's National Goal and Directives and the revised forest policy that aims to ensure greater on-shore processing industry in the country.

The basic objectives of the project were to formulate a coherent and well-supported series of recommendations on the question of whether and how to pursue more intensive evaluation of specific forest product processing possibilities, and to present these findings to GoPNG after an extensive exchange with government and industry's agencies.

The immediate objectives were to:

- undertake a pre-industrial survey to determine where and how Papua New Guinea can utilise its forest resources to its optimum use within the country;
- to evaluate the economic worth of the current processing industries and recommend improvements and/or integration.

More specifically, the Forest Industries Development Studies had, in its initial phase, two primary thrusts:

- to provide the Government with a comprehensive recommendation for policy reform in the interests of stimulating forest industrial development and provide guidelines on the direction the forest industry structure should take in the coming years within Papua New Guinea;
- to provide the Government with a technical and financial model that can be used as the basis of forest industrial development.

2.3 Implementation strategy

The project was initiated in early September 1992 with the Mobilisation of the Forest Industries Specialist. Subsequently, many activities were conducted and many outputs have been provided by the project with the support of short-term consultants.

Two bi-annual reports, the second covering period 1st April 1993 to the 30th of September 1993, were prepared by the FIDS Project and provide details on those activities and outputs.

The Project Schedule envisaged that preliminary results would be available in September 1993 and that a further three months would be required to gain a consensus among all concerned bodies on policy reform before a draft report could be presented that the Government would accept before carrying out the recommendations.

Circumstances overtook the Forest Industries Development Studies project. The Government moved the agenda on policy reform forward by some eight months. The project has, as a result, provided a major input into principal policy reform that is now virtually complete. The work leading to the provision of the technical and financial model continued and provided a draft report in October 1993.

2.4 Planned duration

The planned duration was 18 months while the actual duration was 20 months.

The slight delay was due in part to the need to provide the forestry sector interested parties with a four week period for them to fully analyse the draft FIDS report, to consult amongst themselves if desired, and finally prepare and send their written comments to the Forest Authority and to conduct a National Round table with representatives of the industry, the PNG Forest Authority and other interested party in Port-Moresby to present and discuss the report's findings.

2.5 Total costs

The initially approved budget and the revised budget (according to the inception report) are presented in table 1.

The External Audit Report is presented in Appendix 1.

In general, the FIDS project respected the allocated budget.

Table 1

Forest Industries Development Studies - Budget

A) ITTO/GOPNG Agreement

Items/Activities	Project Budget (Part IV)	Inception Report Budget	ITTO Budget	Paid by GoPNG
1. Forest Industry Specialist	\$180,000.00	\$178,350.00	\$178,350.00	\$0.00
2. Forest Industry Policy Specialist	\$26,000.00	\$26,950.00	\$26,950.00	\$0.00
3. Forest Products Marketing Specialist	\$26,000.00	\$20,425.00	\$20,425.00	\$0.00
4. Short-Term Specialists	\$71,000.00	\$67,525.00	\$67,525.00	\$0.00
5. Project Travel (PNG and International)	\$90,000.00	\$126,950.00	\$124,750.00	\$2,200.00
6. Equipment and Materials	\$22,000.00	\$22,000.00	\$22,000.00	\$0.00
7. Data Collection and Acquisition	\$20,000.00	\$5,000.00	\$5,000.00	\$0.00
8. Workshops and Training	\$20,000.00	\$10,000.00	\$10,000.00	\$0.00
9. Miscellaneous and Unforseen	\$5,000.00	\$5,000.00	\$5,000.00	\$0.00
Total ITTO/GoPNG Agreement	\$460,000.00	\$462,200.00	\$460,000.00	\$2,200.00

B) GoPNG Budgetary Support

GoPNG Budget

1. Balance B/F from ITTO/GoPNG	\$2,200.00
2. Communications (Fax, Telephone, Courier)	\$5,000.00
3. Mobilization of Forest Industry Specialist	\$14,200.00
4. Vehicle Hire	\$4,000.00
5. Report Preparation and Publication	\$10,000.00
6. Accommodation for Forest Industry Specialist	\$50,000.00
7. Withholding Tax	\$32,940.00
Total GoPNG Budgetary Support	\$118,340.00

C) TOTAL PROJECT COST	\$578,340.00
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Note : ITTO/GoPNG Agreement is for \$ US 475,000.00, of which \$ US 15,000.00 was reserved for ITTO expenditures on project monitoring, leaving \$ US 460,000.00 for project costs.

3. Project Results and Achievements

3.1 Results

The project resulted in a very substantial report that was submitted in draft form to the PNG Forest Authority in October 1993. This draft has been reproduced in fifty copies in PNG for distribution to various parties involved in the forest sector for comments and questions. In February 1994, a National Round Table was held with representatives of the industry, the PNG Forest Authority and other interested party in Port-Moresby to present and discuss the report's findings. On the basis of the seminar, the final report was prepared by the executing agency and fifty copies were sent to the Forest Authority.

The final report is composed of:

- i) a Core Report that crystallises salient points of each of the FIDS sub-sector technical field reports and a brief analysis on the strategy's socio-economic impact at the national level.

The sub-sector reports include:

- . Forest Management
- . Revenue, Costs and Surplus Distribution
- . Timber acquisition, allocation and exploitation
- . Overall Forest Sector Review

The information contained in this Core Report is intended for use by decision makers in drafting and/or confirming forest policy and national forestry development guidelines.

- ii) six separate Working Documents (WD) providing technical details and analyses based on field studies. These WDs provide supporting information to the Core Report.

They are:

- WD no. 1: ITTO Terms of Reference, FIDS Project Inception Report, Sector Background Working Papers, Forest Sector Review
- WD no. 2: Industrial Processing Sector - Case Studies

- WD no. 3: Harvesting and Transportation - Review and Projection
- WD no. 4: Financial and Economic Incentives in the Management of PNG's Forest Resources
- WD no. 5¹: Domestic Market Study
- WD no. 6: International Market Study

3.2 Achievements

The FIDS Project has, in many ways, set the pace and served as the base for wide encompassing reforms in the allocation and management process of PNG forest resources.

Some key achievements in that respect are:

- recommendation of a new revenue system.
- introduction of a new timber allocation and management process based on sustained yield which main building blocks are to be:
 - . Forest Management Areas (FMA) : Forest areas pooled by the land-owners into forest management units that will be managed by the Forest Authority;
 - . Timber Supply Areas : Areas that will be allocated to developers for their wood supply. A TSA will be composed of many FMAs;
 - . Timber Supply Agreement: A contract between the Forest Authority and a Developer as to the allocation, utilisation and management of a TSA. Land-owners may be party to the Contract.
 - . Forest Management Agreements
- guidelines on wood processing options in PNG.

¹ It is to be noted that WD 5 is not a study conducted by GWV or Nawitka Resources. It was a separate contract with Mr. M.N. Amin, Marketing Branch, PNG. It is however included in the overall study as the domestic component of the marketing analyses.

In support of those reforms, the PNGFA has also carried out, and completely financed, an additional project (called FIDS 2) whose objectives are:

- provision of the initial stumpage appraisal and collection system;
- development of an ongoing logging and milling stumpage appraisal system that will be universal in its application;
- development of a Project Proposal/Feasibility Study review and evaluation system that will screen and help new investment in the forest industrial sector, and;
- provision of the interface between these systems and the broader forest management information, and field operation systems that will be developed by the National Forest Authority to carry out the new forest policy.
- design and implementation of an electronic data processing (EDP) system that will cover the activities of stumpage calculation, stumpage billing, stumpage collection and stumpage distribution. The system will interface with the general forest management system, yet to be developed, and provide appropriate data and information on cut control.

To insure continuity of the system, it is envisaged that the FIDS 2 Project will provide:

- procedures manuals
- training to the National Forest Authority staff appointed to carry out stumpage calculation, collection and distribution;
- the EDP equipment required ; and,
- a fully operational EDP network.

This project is going on well and should be completed around December 1994.

Finally, and in parallel, the FIDS Project has helped the PNGFA in preparing and submitting a Project Proposal to ITTO for the carrying out of a feasibility study of one or more Forest Products Marketing Organization(s) in PNG. The relevance and importance of this project are clearly stated in the National Forestry Development Guidelines. The project has been approved by ITTO in May 1994.

4. Target Beneficiaries Involvement

In general, the target beneficiaries have provided their full cooperation to the project.

4.1 Government of Papua New Guinea

The Government of Papua New Guinea has provided full support to the project by insuring its budgetary contribution to the project and by enacting various laws and acts and by reorganising the Forest Administration to make it more efficient and in line with the national objectives:

- a new Forest Act - 25th June 1992;
- the Department of Forests was legally disbanded and a new National Forest Service was formed under the watchful eye of a new National Forest Authority as constituted by a Board;
- the decentralised Provincial Forestry systems were re-centralised under the National Forest Service;
- the Council of Forest Industries was disbanded;
- the Local Forest Dealings Act was revoked.

Besides the Ministry of Forests, many other Ministries were consulted during the study and their full cooperation was obtained.

4.2 Papua New Guinea Forest Administration

The Papua New Guinea Forest Authority fully participated in the project by providing counterparts, office space, equipment and material as well as full collaboration to the team of experts from the FIDS project.

The PNGFA also put together and entertained many steering committee meetings to insure the project was on line with the project's set objectives and allocated budget.

Provincial Delegations were also very active and provided very appreciated technical and logistical support for all of FIDS field activities.

4.3 Forest Industry

The logging and the wood processing companies gave their support to the project by giving access to their operations and providing the required technical and sometimes financial information.

Many and continuous contacts were maintained between the FIDS team and the industry. Their collaboration has been precious.

4.4 Land-Owners

Some discussions were held with land-owners groups on the general development of their resources.

5. Lessons Learned

5.1 Development Lessons

The project was well designed as the major issues facing the development of PNG forest sector had in general been well identified in the project identification process. The terms of reference were appropriate as well as the organisational structure proposed for project implementation.

Some elements of the project however had to be revised as new issues and sector development constraints were identified. The most important of those issues was the land-ownership as it related to the access and security of long-term wood supply for the industry. This also led to the question of forest revenues, i.e. the determination of the proper value of timber resources, the collection of the taxes and royalties and finally the distribution between the land-owners and the government.

Finally, circumstances overtook the Forest Industries Development Studies project. Indeed, the Government moved the agenda on policy reform forward by some eight months. The project has, as a result, provided a major input into principal policy reforms while still achieving all of its original objectives and output.

It must be however recognised that not enough consultation was done with the land-owners. This resulted in some misunderstanding and incomprehension from the land-owners and difficult relationship with them for a while. The above has also been fuelled by some environmental NGOs. The PNGFA was however able to efficiently react by recently engaging in an information programme to explain the benefits the land-owners would gain from the new timber allocation and forest revenue systems.

The private sector has for its part shown distrust and scepticism for the new policies and claimed that it had not been sufficiently consulted. It has in some ways tried to curtail implementation of some of the proposed policies. This had however been expected as the new policy was taking away many of the advantages it had been benefiting for many years, this being particularly true for those who were thriving on the log export business. Again, the PNGFA has been able to turn the tide around and is now getting more collaboration and willingness to engage in new timber allocation process and invest in down-stream processing.

The major lesson to be learned from those problems is the importance of communication. The Government has to make sure not only that it provides timely and appropriate information to all interested parties but also that it adapts its message and communication approach to those very different parties. In summary, any new policy implementation has to be accompanied by proper and timely social marketing.

5.2 Operational lessons

The project was well organised, properly managed and very well documented. Many technical reports and memos on many issues and subjects have been made available through the project and the FIDS final report is comprehensive, detailed and wide encompassing.

Project accounting and reporting procedures set up for the project by the Executive Agency and by the Forest Authority were efficient and timely.

The project was well monitored through a project Steering Committee that had representatives from the Forest Authority, the NFCAP, the Forest Industry Association, NGOs, Ministry of Finance and the Executing Agency. The Executive Agency prepared and submitted to the Steering Committee and the ITTO detailed and timely progress reports that covered all aspects of the project (manning, budget, activities, outputs, problems, etc.).

The only real problem was the inability of the PNGFA to provide a counterpart to the long-term expert in the field.

As a whole, the project did not have any serious operational problems and went on very smoothly. There are no real recommendations to be made on the operational aspects of the project.

6. Conclusions and Recommendations

The two major conclusions drawn from this project are as follows:

- there was a real need for the project and the results obtained are very significantly important for the forestry sector of PNG;
- there could have been more collaboration and communication between the different parties involved in the forestry sector in PNG - Government, Industry, land-owners, NGOs;
- the FIDS study has identified several issues and problems that will need to be further addressed either by the PNGFA or by ad hoc projects.

The major recommendations are as follows:

- that more attention be given to the relationships and participation of the various intervening parties in the forest sector (particularly the land-owners) in the planning as well as in the implementation stages of any projects in PNG;
- that the PNGFA provide a full time local counterpart or project coordinator to all projects of any serious scope.
- that the PNGFA engages in the realisation of studies and/or projects that will come in support of the FIDS recommendations and the new policies now being implemented.

Appendix 1

External Audit Report

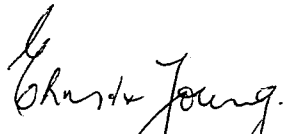
Auditors Report to The International Tropical Timber Organisation (ITTO)


Project PD108/90 Rev. 1(I) "Forest Industry Development Studies" (the project)

In accordance with Article III, Clause 2, of the agreement, dated 30 July 1991, between the Papua New Guinea Forest Authority (formerly known as the Department of Forestry) and ITTO, we have reviewed the attached Statement of Expenditure of the project for the period ended 30 June 1994.

We have traced the expenditure shown to supporting documentation. We have also ensured that the expenditure related to the project and that the project funds were used for the implementation of the project.

In our opinion, the expenditures have been made, as per the terms of the agreement, for the implementation of the project.


ERNST & YOUNG
Chartered Accountants


R.F Seaman
Partner

Dated this *S.R.* day of *August, 1994*, Port Moresby.

Project PD 108/90 Rev.1(I) "Forest Industry Development Studies"
Statement of Expenditure
For the Period Ended 30 June 1994

	USD
EXPENDITURE	
General Woods & Veneers Consultants International Ltd	486,250
Travel	51,322
Equipment & Materials	27,291
Workshops & Training	1,297
Communications	1,462
Vehicles	4,354
Reports	628
General	<u>806</u>
Total expenditure	<u>573,410</u>

FOREST INDUSTRIES DEVELOPMENT STUDIES PROJECT - PD 108/90

PHASE 1

TABLE 2: EXPENDITURE REPORT AGAINST BUDGET

ITEM/ACTIVITY	BUDGET \$US	EXPENDITURE \$US	VARIANCE \$US
ITTO/PNG AGREEMENT			
Forest Industries Specialist	178,350	130,891	47,459
Forest Industries Policy Specialist	26,950	66,550	(39,600)
Forest Products Marketing Specialist	20,425	24,700	(4,275)
Short Term Consultants	67,525	78,575	(11,050)
Project Travel (PNG & International)	124,750	106,434	18,316
Equipment and Materials	22,000	37,069	(15,069)
Data Collection and Acquisition	5,000	5,198	(198)
Workshops and Training	10,000	11,419	(1,419)
Miscellaneous and Unforseen	5,000	6,188	(1,188)
TOTAL UNDER ITTO/PNG AGREEMENT	460,000	467,023	(7,023)
GOPNG BUDGETARY SUPPORT			
Project Travel (PNG & International)	2,200		2,200
Communications (Fax, Tele, Courier)	5,000	4,620	380
Mobilization of Forest Industries Specialist	14,200	16,649	(2,449)
Vehicle Hire	4,000	6,970	(2,970)
Report Preparation and Publication	10,000	9,628	372
Accommodation for Forest Industries Specialists	50,000	34,498	15,502
Withholding Tax	32,940	34,024	(1,084)
TOTAL GOPNG BUDGETARY SUPPORT	118,340	106,388	11,952
<u>TOTAL ALL PROJECT COSTS</u>	578,340	573,411	4,929