

# BTI 2010 | Papua New Guinea Country Report

<b>Status Index</b>	1-10	<b>5.85</b>	# 58 of 128	
Democracy	1-10	6.35	# 50 of 128	➔
Market Economy	1-10	5.36	# 70 of 128	↗
<b>Management Index</b>	1-10	<b>4.99</b>	# 65 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transition and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.  
 More on the BTI at <http://www.bertelsmann-transformation-index.de/>

Please cite as follows: Bertelsmann Stiftung, *BTI 2010 – Papua New Guinea Country Report*. Gütersloh: Bertelsmann Stiftung, 2009.

## Key Indicators

Population	mn.	6.3	HDI	0.54	GDP p.c.	\$	2084
Pop. growth	% p.a.	2.0	HDI rank of 182	148	Gini Index		50.9
Life expectancy	years	57	UN Education Index	0.52	Poverty <sup>2</sup>	%	57.4
Urban population	%	12.6	Gender equality <sup>1</sup>	-	Aid per capita	\$	50.2

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

During the period under review, Papua New Guinea (PNG) made some progress toward providing its citizens greater freedom of choice by improving the state of democracy and its market-based economy. Having suffered a severe recession in the late 1990s, the PNG economy began to recover slightly in the mid- 2000s, thanks largely to the fact that commodity and oil prices rallied. In 2007 and 2008, the economy grew by 6.2% and 6.3%, respectively.

There have been some positive developments during the period under review. These include: continuity in government leadership with Sir Michael Somare (most previous prime ministers were forced from office within a two-year period), economic recovery, largely sound economic policies, stability in the exchange rate, an increase in foreign exchange reserves, peace on the war-torn island of Bougainville, nascent signs of stability in political parties, and the preservation of improvements made in civil society. The institutional hardware of a market economy is firmly in place.

It should be mentioned, however, that some of the more positive developments witnessed during the review period are the fruit of some initiatives introduced well before 2007. Although it is true that PNG has benefited from the high oil and commodities prices of the 1990s, one can attribute some of the general improvements seen to administrative, economic and political reform packages and policies that were instituted by the government of Sir Mekere Morauta (1999 – 2002). In terms of implementation, political reforms, which were instituted at the top levels of administration, have arguably been the most effective. The changes made to the first-past-the-post electoral system after the 2002 national elections constitute one illustrative example. Since the early 1980s, this system had been yielding poll results that were not at all representative of most electorates, with most winners walking into the 109-seat parliament with 20% or less of the total vote. In order to restore credibility to the electoral process, Sir Mekere overrode the resistance to change among many parliamentarians. The increase in election-related violence

over the years is largely explained by the intense competition that has emerged over parliamentary seats, particularly in cases where very few votes determine winning margins.

The country continues to face some deep-rooted problems, such as its low level of socioeconomic development. Per capita income is currently lower than it was at the time of independence. Years of poor governance, tribal wars, disintegrating law and order, and persistently high levels of corruption have taken a heavy toll on the country.

During the period under review, the country's currency, as well as prices and economic growth were relatively stable. This is unusual because, throughout most of the 1990s, the country witnessed consistent negative growth, rapidly falling exchange rates, and constant changes in government. The government benefited from the high prices of oil and commodities during the first part of the period under review, but the onset of a worldwide recession in 2008 threatens to usher in severe economic problems for PNG in 2009.

## History and Characteristics of Transformation

Since achieving independence from Australia in 1975, Papua New Guinea has nurtured a relatively open economy. Dual in nature, Papua New Guinea's economy includes a small formal economy and a much larger informal economy in which subsistence farming accounts for the bulk of economic activity. Nearly 85% of the population resides in rural areas, and annual population growth is relatively high at approximately 2.5%. The formal sector provides a rather narrow employment base for those engaged in mineral production, manufacturing, the public sector, and service industries such as finance, construction, transportation and utilities. Rapid urban growth underway since independence is related to high levels of urban unemployment, high crime rates and other related social problems.

Papua New Guinea's economic growth has relied heavily on the mining and petroleum sectors. These two sectors combined generate approximately 20% of government revenue and 60% of export revenue. Agriculture, which accounts for about one quarter of exports, has in recent years expanded through cash crops such as coffee, palm oil, cocoa and copra. The other major export is raw timber logs.

Politics in Papua New Guinea have been marked by two distinct features, the first being the fact that no government has completed a full term for which it was elected and the second being high levels of corruption. On average, governments in Papua New Guinea last no longer than three years. Of the 12 elected governments since 1977, three governments have been ousted through votes of no confidence, seven have been removed through national elections, and the other two occurred for other reasons. During this period, the threat of motioning to conduct a no confidence vote jeopardized cabinet stability and durability. Weak political parties lacking a

mass support-base created a situation in which members of parliament had little political legitimacy and were therefore susceptible to corruption.

This pattern was broken by Prime Minister Sir Michael Somare, who was first elected in 2002 and again in 2007 for a second term. To facilitate stability, Somare introduced the Organic Law on Political Parties and Candidates (OLIPPAC), which makes it extremely difficult for members of parliament to switch parties or resign from their party. This law effectively makes it much more difficult to remove a sitting prime minister through a vote of no confidence brought about by massive defections.

Nevertheless, corruption is present at the top echelons of government and bureaucracy, and it is the single biggest cause of the country's decline since independence. Huge sums of money have disappeared in the pockets of politicians and public servants or have been misspent by successive governments. There is very little political will to fight corruption as it permeates every layer of society, politics and bureaucracy.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The state's monopoly on the use of force is established nationwide in principle but is challenged by criminal gangs referred to as "rascals" and tribal groups. Rascals operate mostly in urban centers and have access to high-powered weapons. Tribal wars are largely concentrated in the highlands. None of these groups are in a position to take over the country, although tribal groups are capable of taking over small territories for limited periods. During the period under review, a state of emergency was declared for the Southern Highlands province due to a complete breakdown of law and order, and several other provinces such as Enga suffered from tribal wars.

Monopoly on the use of force

With the exception of the island of Bougainville, there are no regions in Papua New Guinea where problems with state identity arise. The definition of citizenship is not a politically relevant issue. While all citizens have the same civil rights, the presence of a weak state means that many are not able to enjoy these rights.

State identity

With an estimated 830 distinct linguistic groups, the country is highly fragmented in cultural terms. While the traditional division between the highlanders and those who live along the coast still exists, the country's demographic divisions are now much more fluid. Nevertheless, derogatory stereotypes of highlanders being violent and "backward" persist. The political cleavage of the 1970s between those opposed to independence from Australia and those in favor is no longer politically salient.

Being geographically as well as culturally closer to the Solomon Islands than mainland Papua New Guinea, the population of the island of Bougainville tried unsuccessfully to gain their independence in the 1970s. In 1989, a war of secession broke out and in 2004, the Papua New Guinea government unveiled a new constitution for the island, granting Bougainvillians greater autonomy. Elections held in 2005 established a new provincial government. Nevertheless, tensions between the central government and Bougainville remain, and many among the PNG elite believe that Bougainvillians still aim to create a separate state.

There is separation of church and state, but the constitution does refer to PNG as a “Christian” country. Religious leaders from both Protestant and Roman Catholic churches remain influential. Many political parties claim to be guided by Christian principles. The political process is secular and freedom of religion, by and large, is respected. Because the overwhelming population is Christian (more than 90%), policymakers consider seriously church leaders’ opinions. Several priests have resigned from their duties with the Roman Catholic Church to pursue a full-time political career, the most prominent one being the governor for Bougainville, John Momis.

No interference of religious dogmas

The country suffers from an inefficient, corrupt bureaucracy, serious problems with maintaining law and order, weak discipline within the army and police forces, and poor governance. Most analysts consider PNG a weak state in which the state apparatus cannot implement even the most basic policies. The government’s most basic operational machinery is either dilapidated or non-existent in many rural areas and the highlands, where tribal conflicts continue. However, tribal wars for which the highland areas are notorious, do not occur because of the lack of government machinery. Tribal conflicts emanate mainly from traditional animosities which predate the modern state system. However, the limited state presence has failed to stymie tribal conflicts. There are also cases of poorly designed laws that have basically curtailed good governance. Changes made to the provincial government system in 1995 further weakened the presence of the state mechanism in peripheral areas, which caused more problems for the central government.

Basic administration

## 2 | Political Participation

Papua New Guinea is a constitutional monarchy with Queen Elizabeth II as the head of state. She is represented in Papua New Guinea by a governor-general. The governor-general is elected directly by members of the national parliament and performs ceremonial functions. Executive power lies with the prime minister and the cabinet.

Free and fair elections

There is universal suffrage and elections have been held in a timely manner since independence. However, serious problems remain with participation. Elections are neither free nor fair. Massive vote buying, ballot rigging, clan voting, violence, intimidation and cheating are widespread, especially in the highlands. Election-related violence occurs during virtually every general election. During the most recent 2007 general elections, more than a hundred lives were lost. Nevertheless, the transfer of power takes place peacefully after election results are announced, and the military and the police have generally refrained from interfering with politics.

Papua New Guinea suffers from the so-called weak state syndrome. While elected leaders have the constitutionally mandated power to govern, this power is in practice often compromised by clan and regional loyalties, powerful business groups and interest groups such as landowners. The problem is compounded by a corrupt and inefficient bureaucracy that often lacks the capacity to carry out government decisions, or in some cases, is exploited by powerful individuals, who are referred to as “Big Men,” to subvert government policies.

Effective power to govern

There are no problems with asserting the constitutional right to assemble and establish associations. NGOs play an active role in voter education and civil society. Political and civil organizations such as trade unions can – and do – form freely.

Association / assembly rights

There are no restrictions on the freedom of expression for individuals or the media. The media often exposes corruption and criticizes national leaders. However, the business interests of media outlets’ owners often restrict content. The national daily, which is owned by the logging giant, Rimbunan Hijau (RH) never prints a negative story about RH or the logging industry in PNG. However, the ownership structure of the media is diversified, and, there are other newspapers and electronic media that print negative stories about the logging industry.

Freedom of expression

### 3 | Rule of Law

There are no constraints on the separation of powers between key institutions and there is a system of mutual checks and balances in place. However, a weak and inefficient bureaucracy renders the implementation of checks and balances sluggish and non-systematic.

Separation of powers

There are problems with parliament’s oversight of the executive. More often than not, the executive branch dominates parliament. A new law has made removing the prime minister more difficult, which in end effect enhances the powers of the prime minister to dictate his will upon parliament. Nevertheless, parliament engages in vigorous debates in which government activities and policies are openly discussed.

The executive branch’s dominance over parliament ensures that most parliamentary committees cannot carry out the oversight responsibilities expected of them, especially since they are to be chaired by members of parliament who are not ministers. Worse still, in a move that facilitated corruption, sitting allowances are given to members of parliamentary committees whether they meet/sit or not.

The OLIPPAC (Organic Law on Political Parties and Candidates), which was adopted to stabilize political parties and ensure the continuity of governments, has a downside in that it weakens the opposition. With the OLIPPAC, no party having voted for a prime minister can vote against him later on. This effectively undermines the conditions needed for a healthy opposition.

The judiciary is free of unconstitutional intervention by other institutions and of high-level corruption. There are mechanisms in place for the judicial review of legislative or executive acts, and parliamentarians often take pieces of legislations to the courts for review. Senior judges from Papua New Guinea are well regarded regionally and several have been invited to serve in neighboring countries.

Independent judiciary

As a rule, corrupt officeholders are prosecuted under established laws, but in reality many senior politicians escape by resigning from their elected posts. Under PNG's Leadership Code, the moment an elected leader resigns, s/he cannot be prosecuted for misconduct.

Prosecution of office abuse

Senior civil servants are regularly prosecuted by the ombudsman office for misconduct and corruption, although rate of successful prosecutions remains low. The ombudsman office suffers from a lack of capable staff and resources.

PNG citizens enjoy full civil rights under the constitution but in practice, marginalized groups such as prisoners, women, children, people living with HIV/AIDS and people with physical disabilities do not enjoy their civil rights on a regular basis and are openly discriminated against by society at large. Police regularly beat up suspects and rape women held within their custody.

Civil rights

#### 4 | Stability of Democratic Institutions

Democratic institutions have been in place since independence almost without interruption. However, institutional efficiency and effectiveness is low, not at least because of high discontinuity within the major political institutions. Parliament is illustrative of this problem, as more than half of the parliamentarians lose their seats in every election. Institutional deficiencies are mainly due to poor governance, inefficiency and corruption. During the period under review, Prime Minister Michael Somare held on to his office, but regularly sacked members of his cabinet. When a new minister is appointed, the entire ministry is usually affected as the incoming minister introduces new policies and modifies the previous ones.

Performance of democratic institutions

All relevant political and social players accept democratic institutions and regard them as legitimate.

Commitment to democratic institutions

#### 5 | Political and Social Integration

The party system in PNG is fragile. Political parties tend to be driven by personalities and regional or clan ties. All political parties in PNG lack organization, a political philosophy or any real public policies. This state of affairs has resulted in a high level of voter volatility. It is not uncommon for politicians to form their own parties even if they are the only elected representative. Introduced in

Party system



2007, the Organic Law on Political Parties and Candidates (OLIPPAC), was aimed at bringing stability to the incumbent government by preventing members of parliament from party-hopping and forcing a vote of no confidence against the prime minister, which occurred on a regular basis. Because of the OLIPPAC, Michael Somare was able to serve out a full term as prime minister from 2002 to 2007. However, during the same period, eleven members of parliament changed political parties, and none lost their seats. While the OLIPPAC improved cabinet durability, it did not facilitate the institutionalization of political parties and the national party system, which was not the intent driving the legislation. There are provisions in the legislation that allow political parties to fuse or coalesce with other parties. The larger goal is to establish a structural incentive to form fewer bigger parties, not several smaller political parties

Although there are plenty of interest groups and civil society organizations in PNG, only a handful of them have real access to power and policy-making. The powerful interest groups are those connected with business groups or commerce and Christian groups. Important groups such as women's rights organizations are often left out of the decision-making process.

Interest groups

The consent to democracy among citizens is high, and the constitutional framework is fully accepted by most segments of society. There are political protests that nonetheless call the constitutional framework into question. At the same time, however, it is clear that in many regions of the island nation, people do not care much about the everyday functions of democracy.

Consent to democratic norms

PNG remains divided along ethnic, linguistic, regional and clan lines, leading to low level of trust among groups. Women's and environmental groups constitute the most successful indigenous self-help organizations.

Associational activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Poverty and social exclusion are quantitatively and qualitatively extensive, and they are structurally embedded. PNG ranks 149th out of 179 countries on the 2008 HDI and 116th out of 135 developing countries on the Human Poverty Index. The Gini coefficient for PNG is 50.9. Unemployment is estimated to be higher than 70% and more than 80% of the population relies on subsistence farming or the informal economy for their daily needs. Infant mortality is ten times higher than in developed

Socioeconomic barriers

countries, and the prevalence of HIV and AIDS is increasing. Efforts to eradicate poverty have been hampered by corruption and poor governance. Moreover, ineffective policies, especially in the agricultural sector, have failed to assist the bulk of people living off of the land. The UNDP estimated that from 1990 to 2004, 37.5% of the population was living below the poverty line, although some observers estimate this figure to be as high as 70%.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	3927.1	4921.4	5578.7	<b>6258.7</b>
Growth of GDP	%	2.7	3.4	2.6	<b>6.2</b>
Inflation (CPI)	%	2.2	1.8	2.4	<b>0.9</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.4	0.7	-0.1	<b>1.5</b>
Export growth	%	2.7	-4.7	-12.0	<b>-13.4</b>
Import growth	%	8.6	5.1	2.2	<b>-1.4</b>
Current account balance	\$ mn.	122.2	640.4	-	-
Public debt	\$ mn.	1445.1	1266.4	1225.5	<b>1156.1</b>
External debt	\$ mn.	2286.0	2275.8	2372.5	<b>2245.1</b>
Total debt service	% of GNI	13.4	8.9	7.3	<b>7.6</b>
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	15.3	13.1	12.1	<b>11.5</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.8	3.6	2.6	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.6	0.6	0.5	<b>0.6</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

Market competition has a solid institutional framework, but the rules are not consistently or always uniformly applied for all market participants. PNG's national economy is small, and there are companies with dominant market positions and strong ties to powerful politicians that often receive favorable treatment from the government. For example, the state-owned company Telekom uses its connections with key ministers to create barriers for competitors – particularly in the mobile phone and Internet services-provider sector.

Market-based  
competition

There are also significant barriers to new market entrants, such as high costs involved with establishing a business, breakdowns in law and order, high banking costs, bureaucratic red tape and corruption, all of which interfere with the functions of a free market.

The persistence of corrupt political leaders, combined with an incompetent and corrupt bureaucracy, often means that only those businesses willing to pay “facilitation money” can win a significant advantage over competitors. Commissions of inquiry have found numerous instances of public tenders being awarded to companies or individuals who have bribed officials. Large and well-established companies have a significant advantage over newcomers. In recent years, the trend is for major companies to buy their smaller competitors and create an even stronger market position for themselves. Among top businessmen, direct and indirect cross-ownership of businesses is frequent. Faulty corporate governance is the norm rather than the exception.

Although there is a formal office of Independent Consumer and Competition Commission (ICCC) in place to regulate against monopolistic behavior, the small size of the PNG economy and historical circumstances have ensured that some of the larger companies continue to operate as oligarchies and monopolies. For example, the state-owned enterprises PNG Power (electricity), Telekom and Ena Ranu (water utility) hold virtual monopoly positions in their sectors. Many of these large companies have strong political connections to protect their position. In the financial sector, one of the country's four banks, Bank South Pacific (BSP), controls more than 70% of the national market.

Anti-monopoly  
policy

The government encourages foreign trade, especially with those states participating in the Melanesian Spearhead Group (MSG) Preferential Trade Agreement, which includes Vanuatu, Papua New Guinea, the Solomon Islands and recently, Fiji. However, bureaucratic red tape and the high cost of transportation between the

Liberalization of  
foreign trade

island states constitute significant barriers to free trade and foreign investments. In practice, this means large and well-established companies have a distinct advantage over new entrants and small companies.

Despite its public pronouncements, the country is not foreign investor-friendly. A maze of regulations and paperwork must be navigated before a foreign enterprise can start operations in Papua New Guinea. The Investment Promotions Authority (IPA), supposedly a “one-stop” center for foreign businessmen, is often sarcastically referred to as the “Investment Prevention Authority.” However, one must not overlook the fact that the country’s topography – particularly that of the island of New Guinea – is among the most rugged in the world. This means that the cost of building and maintaining infrastructure is extremely high, and the capital of Port Moresby is relatively isolated from the rest of the country, accessible primarily by air and sea. All of this must be factored in to the high cost of doing business in PNG.

The banking system on the whole is sound. The central bank, the Bank of PNG, follows international standards and pursues best practices. However, given that there are only four privately operated banks in the country, there is an unofficial duopoly at work in the banking system. One of the four banks, Bank South Pacific (BSP), controls more than 70% of the market and is the only bank with branches throughout the country. It thus holds an unofficial monopoly on rural banking. BSP arguably is also the only bank willing to take on the risks involved with investing in rural areas, particularly where banking is exposed to criminal activities.

Banking system

The other three banks, Australia New Zealand Bank (ANZ), Westpac and Maybank Papua New Guinea, concentrate mostly on business clients and can be found only in the country’s urban centers. Banks in Papua New Guinea are inefficient. For example, local checks require three working days to clear. Most businesses still prefer cash. All the commercial banks are closely supervised by the central bank.

With only 19 companies listed, the Port Moresby Stock Exchange (POMSOX) is small, and some of its key counters have dual listings on the Australian Stock Exchange. Market liquidity is a problem, as there is a limited number of local players and few international players. There are no restrictions on foreign capital entering and exiting the POMSOX.

## 8 | Currency and Price Stability

During the period under review, the Bank of Papua New Guinea maintained a tight monetary policy primarily aimed at curbing inflation and maintaining stability in the exchange rate as well as the macroeconomic environment. Inflation hovered at 1.7% in 2007 and 4.9% in 2008.

Anti-inflation /  
forex policy

For most of 2007 and 2008, the kina stabilized at approximately \$0.35, thanks mostly to a windfall from high commodity and oil prices.

There are no major problems with remitting money into and out of PNG, although amounts greater than PGK 250,000 require clearance from the central bank. This is a vast improvement over the previous system in which all remittances required central bank clearance.

The government and central bank policy of macrostability is aimed at attracting foreign investors and maintaining stable prospects. The central bank's independence has been crucial to achieving these goals.

Macrostability

Following several years of contraction, the PNG economy has been growing since 2003. The Gross Domestic Product grew at a rate of 6.5% in 2007 and 7.2% in 2008. Other macroeconomic indicators have also improved, with inflation rates and interest rates remaining low, foreign reserves at historic levels and employment in the formal sector growing. The PNG government has projected a budget surplus of about PGK 202.3 million, or 1.1% of GDP for 2008. The surplus will be used to reduce external borrowings, and PNG's total public outstanding debt is forecasted to fall to 31.8% of GDP.

In PNG, ministers are expected to bring development funding to their home areas, regardless of the area's economic potential. In many ministries, off-budget items are paid through "special purpose accounts" (SPA). In some instances, these accounts contain millions of kina for discretionary spending by the minister and are not subject to audit.

The government is also prone to overspend during elections when government spending is used to buy political support.

## 9 | Private Property

Property rights are well defined legally. However, a generally weak bureaucracy and the state's weak monopoly on the use of force also mean that in some areas – especially the more remote highland territories, where there are no functioning public institutions – legal property rights cannot be enforced by courts or state authorities.

Property rights

Private companies constitute the backbone of the economy, but major utilities are run by state-owned companies such as Ena Rau (water supply), PNG Power (electricity) and Telekom (communications) that virtually hold a monopoly position in their respective sectors. Some private companies, such the rice importer Trukai, also hold virtual monopoly power in their sectors.

Private enterprise

State-owned enterprises in PNG have powerful trade unions. Many of the country's current political leaders were involved with creating these businesses and are inclined to argue for their continued preservation, regardless of their performance. The national airline, Air Nigiri, is one such example of an enterprise that has received economic and political support through good and bad times.

## 10 | Welfare Regime

There is no state welfare system. However, the cultural norms involved with the system of wantok, which is a pidgin term ("one talk") denoting members of a family or clan, require that weaker members be looked after by the clan or family. Poverty is widespread and most programs helping those who live in poverty are undertaken by NGOs funded by foreign funds, rather than government. The Australian government's overseas development aid program, AusAid, plays a major role in poverty and rural health program in PNG.

Social safety nets

Broad segments of the population do not have access to proper health care. Major hospitals around the country are routinely shut down or are forced to scale back services because they have not received their budget allocations on time. Hospital shutdowns due to unpaid staff or unpaid electricity and water bills are not uncommon. Many hospitals rely on foreign aid to fund equipment and medicine.

Working adults in full-time employment are required to pay into a provident fund that is based on regular contributions from both the employee and employer. Prior to 2000, the state-operated National Provident Fund (NPF) was the only fund legally entitled to take contributions. This changed, however, when the NPF began losing millions of contributors' money to corruption. Private pension funds are now in place, although recent events suggest they suffer from corruption as well. One of the largest of such funds, Pacific Balance Fund, has already lost millions through corruption and mismanagement.

Although there are laws in place to provide for equal opportunity, large sections of the population face open discrimination. Women in particular are discriminated against in all strata of society. Their access to education, medical care, employment opportunities and public office are limited, and they are rarely protected from domestic abuse. In the political arena, where women's participation is marginal, women suffer widespread discrimination and generally find it difficult to win an election. Currently, parliament has only one female member. Cultural discrimination against women in PNG is based on conservative beliefs which hold that men are born to lead and that women should look after the family and the household. In the highlands, where such beliefs are deeply rooted in the cultural environment, women in remote communities are subject to extreme social control. However, this set of beliefs is also prevalent among the educated ruling elite, and it

Equal opportunity

is common to hear of members of parliament and other senior officials who have beaten their wives. While several ministers have been openly accused of domestic violence, most of these reports are not investigated by the police. Indeed, domestic violence is widespread. According to a national survey conducted by the PNG Law Reform Commission, 67% of rural women and 56% of urban women have been victims of some form of sexual harassment or assault. Poverty contributes to gender discrimination, since parents are more willing to spend limited resources on educating males rather than females.

## 11 | Economic Performance

Economic growth accelerated to an estimated 6.5% in 2007 and 7.2 % in 2008, about double the average rate of years previous. According to the Asian Development Bank, the recent macroeconomic stabilization was mostly a consequence of the flow-through of high prices for export commodities (especially oil and palm oil). Increasing revenues from primary goods exports allowed for a rise in public and private spending, and stimulated investment. Even with an increase in public expenditure by 19.4% in 2008, there was an overall budget surplus of an estimated 1.7% of GDP in 2008.

Output strength

The commodity price boom lifted overall spending capacity and business confidence, prompting banks to increase lending to the private sector. Furthermore, increasing public revenues opened the opportunity for banks to lend more capital for the private sector. This contributed to the increase in private sector lending by 31.9% in 2007 (compared to 2006).

Despite the stronger economic growth, inflation levels remained controllable with an increase of the consumer price index by 2.5% in 2007. Furthermore, employment in the small formal private sector rose by more than 5% in 2007, with the main job generators being retailing, construction, agriculture, forestry, and fishing. According to ADB estimates, a 30.9% surge in imports in U.S. dollar terms in 2007 reduced the trade surplus, but the current account was still in surplus, equivalent to an estimated 4.3% of GDP for the year.

## 12 | Sustainability

Although there are strict laws on environmental protection, environmentally compatible growth receives almost no consideration. Many in the government believe that rapid growth requires compromises in environmental protection and quality. There is a Department of Environment (DOE), but often its work is compromised by more powerful ministries such as Trade and Industry. For years, NGOs have documented the failure of the Department of Forests to apply its own

Environmental policy

regulations on logging in PNG. In the past year, the government established an Office of Climate Change and Sustainability (OCCS) within the Department of Environment and Conservation. However, having been established primarily to bring in money through carbon trading under the U.N. framework, the OCCS does not contribute to environmental preservation in PNG in any meaningful way.

There are four state universities and several private tertiary institutions, but they all underperform academically. Many of the state universities are persistently underfunded, and academic staff strike over unpaid salaries and poor working conditions regularly. Discipline among students is also a worry. During the period under review, there were major student disruptions at the top two institutions, the University of Papua New Guinea and the University of Technology.

The government allocates less than 2% of GDP to education. In many cases, the allocated sum is not paid out in full as the money is diverted to more pressing political issues. There is almost no state investment in research and development.

Education policy /  
R&D



# Transformation Management

## I. Level of Difficulty

The structural constraints on governance are massive. Corruption reaches the highest levels of government, levels of trust among government agencies are low, ministers are frequently sacked, and the government bureaucracy itself is inefficient and corrupt. Other constraints that have taken their toll on the country include: low education levels, a lack of infrastructure, a small and underperforming economy, aid dependency and ethnic conflicts. PNG is experiencing rapid, sustained population growth of about 2.7% annually, and it has the highest rate of reported AIDS/HIV cases in the region. In 2005, 64,000 people, or 2% of the adult population, were reportedly living with HIV/AIDS.

Structural  
constraints

While some experts consider PNG to be a “failed state,” it is important to bear in mind that the modern state system has been superimposed on thousands of tribal groups across not only vast regions of rugged terrain, but hundreds of islands as well. Given the logistical difficulties involved with this state of affairs, a weak – rather than “failed” – state might be a more appropriate term.

Civil society traditions are weak and mostly concentrated in urban areas where most of the educated population lives. However, cultural norms such as “wantok” and “payback,” which require entire clans or tribes to retaliate against another when a clan member is injured or harmed, supersede any forms of civil society norms. There is a very low level of trust among tribal groups and people beyond a given wantok.

Civil society  
traditions

PNG society and the political elite are deeply split along the lines of social class, and tribal and regional groups. Wantok politics dominate political life. The Somare administration has been repeatedly accused of favoring Sepiks (Somare is a Sepik) in appointing senior public servants.

Conflict intensity

There are also many groups challenging the state over the control of resources. The highland tribal groups, for example, are seeking control of gas fields that are worth millions. Tribal groups also regularly extort people in transit along sections of the highland highway, claiming that they are merely collecting toll for the use of their land or compensation claims against the government.

The issue of land ownership is a major source of conflict not only between local populations and the government, but also among clan and tribal groups as well. Most (94% - 97%) of the land in PNG is subject to customary tenure. By law, major government projects involving natural resources or infrastructure are required to pay millions of kina or dollars in royalties to landowners, which are usually comprised of distinct tribal or clan groups within a given geographical area. Many of these groups regularly attack government installations in the name of unpaid land compensation. In one such example, several communication towers in rural areas were destroyed by landowners after Telekom had refused to pay compensation.

## II. Management Performance

### 14 | Steering Capability

The political leadership pursues long-term aims, but often postpones them in favor of short-term political benefits. Whereas it seeks to deepen democracy and a market economy, its strategic aims are not commensurate with the country's problems and needs. Weak institutional efficacy, a poorly functioning bureaucracy and the lamentable state of political parties exacerbate problems with coherent planning and policy prioritization.

Prioritization

The government fails to implement most of its stated reform goals. This is due on the one hand to the lack of political will among political decision-makers to really implement their policies and on the other to the lack of administrative capacity on the other. Another major problem for the implementation of reforms is that senior politicians interfere regularly in civil service operations. In the case of conflicting orders, senior public servants will often follow those given by regional governors. Most reforms are initiated by the prime minister's office but are often not implemented due to an inefficient civil service that is particularly weak beyond major urban areas. A survey undertaken a few years ago revealed that more than two-thirds of cabinet decisions were either not carried out or were not carried out in full by the civil service. Reforms undertaken to make the civil service more effective have also failed in recent years.

Implementation

At the 18th Australia - PNG Ministerial Forum on 23 April 2008, ministers agreed to continue the Strongim Gavman Program (SGP), which is Tok Pisin for "strengthening" or "empowering" government. The program places senior and experienced Australian government officials in PNG agencies in order to help strengthen government activities and accountability. Under the SGP, nearly 40

Australian officials will be placed in the PNG bureaucracy to assist with reforms in the areas of economic and public sector governance, border management, transport safety and security, and law and justice. .

The political leadership will respond with proposed changes to mistakes made and failed policies, but more often than not, policies remain stuck in the same routines. Senior politicians who interfere with the implementation of public policies often block new policies that threaten their personal interests.

Policy learning

## 15 | Resource Efficiency

The central government uses only some of the available resources efficiently. Political expediency and interference means that public resources are wasted. In the provinces, the situation is even worse as many provincial governors treat the state as their personal fiefdom. Provincial governments, and to a lesser extent, the central government, are plagued by the mismanagement of funds, the dismissal of senior staff and wantok appointments.

Efficient use of assets

The problems plaguing provincial governments are in part related to the changes made in 1995 to the system of provincial administrations, which effectively reduced the size of provincial government bureaucracies while strengthening the leverage of the provincial members of parliament in the National Parliament.

The central government tries to coordinate policy-making through the Central Agencies Coordination Committee (CACC). However, ministers and senior politicians often interfere with the process by giving conflicting instructions. A weak, inefficient and corrupt civil service adds to the difficulty of policy coordination. A related problem is the low quality of data available for policy-making. The Department of Planning and Monitoring often relies on statistics that are suspected to be flawed and incomplete.

Policy coordination

In theory, the government is committed to battling corruption and nurturing good governance. In reality, however, corruption is endemic. It is a problem at all – including the highest – levels of politics, bureaucracy and society. It is almost impossible to carry out an effective anti-corruption policy in practice. The Ombudsman Commission conducts investigations of political leaders suspected of corruption, but once a politician resigns, the Commission can no longer legally investigate the case.

Anti-corruption policy

## 16 | Consensus-Building

All major political actors agree on the goals of building a market-based economy and liberal democracy. However, given the deficits observed in managing the

Consensus on goals

democratic process and the transformation to a market economy, this consensus remains fragile or partial, especially with regards to elements thereof such as the rule of law, the equal treatment of all citizens and the need to strengthen the institutional framework of the national economy.

Reformers cannot prevent all of the powerful anti-democratic actors, such as tribal groups and regional political leaders, from seeking control of the state, but they can at least limit these groups from exercising their power. The basic cleavage between the highlanders and people living in the lowlands or coastal areas has dominated political conflicts since independence. Their mutual attempts to dominate the political process have not resulted in either side successfully controlling the state for any long period. The constant change in government and repeated shifts in cabinet members ensure that anti-democratic forces are held in check.

Anti-democratic  
veto actors

The political leadership does not actively seek to reduce existing divisions or prevent conflicts from escalating. Clan, tribal and regional loyalties form the basis of all social interactions and since there is a low level of trust between groups, it is almost impossible to reduce existing divisions. Violence, especially in the highlands, break out on a regular basis, and in some quarters this is seen as a form of conflict management since tribal wars usually lead to a period of peacemaking.

Cleavage /  
conflict  
management

The political leadership frequently ignores civil society organizations (CSOs), seeing them as political rivals and anti-growth elements. More often than not, the government formulates its policy autonomously and secretly, especially when it comes to controversial policies. Examples of the government ignoring CSOs include its policies relating to logging and deforestation, and those relating to environmental protection and pollution control. The fact that many CSO leaders regularly run in elections compounds the problem, as it nurtures the widely held view that CSOs are nothing more than political parties in all but name.

Civil society  
participation

The political leadership recognizes the need to deal with historical acts of injustice, but the process of reconciliation often fails. Land compensation claims constitute a prime example of a historical act of injustice. During the colonial administration, all land not issued with a title became state land. After independence, land with titles constituted less than 8% of all available land in PNG. This has led to numerous conflicts and tribal wars in which people have died fighting over land rights and compensation claims from the government. Because land ownership is such a sensitive issue, no government since independence has made any serious attempt to survey the land and issue titles.

Reconciliation

The only success observed in addressing a historical act of injustice in PNG is the reconciliation process that has taken place between the central government and the people of Bougainville. After more than a decade of civil war, the central government permitted an autonomous provincial government to be established on

the island. However, there are fears that this may not last as the Bougainville government has failed to demonstrate any progress in advancing the goal of good governance in the past two years. The government has instead been subject to several allegations of corruption.

## 17 | International Cooperation

Since independence, PNG has cooperated with and received extensive help from several international bodies. Among the major players helping PNG develop are the UNDP, Asian Development Bank, IMF, World Bank and AusAid. PNG is also an active member of the South Pacific Forum and plays a leading role in the African, Caribbean and Pacific states (ACP countries) pact with the European Union. However, PNG's record in terms of its ability to put aid to effective use is mixed at best. PNG receives one of the highest per capita levels of aid money. However, many aid programs have failed, and corruption has had a severe effect on aid programs. There are many cases in which foreign aid money has gone unused because the bureaucracy has been unable to comply with the paperwork.

Effective use of support

The PNG government has lost international credibility over the Moti affair. In 2006, Julian Moti, the attorney general of the Solomon Islands, was arrested while in transit at Port Moresby. He was arrested at the request of the Australian government so that he could be extradited and tried on child sex charges. However, the Somare administration, calling the request an interference with PNG's internal affairs, decided in favor of maintaining relations with the Solomon Islands, a close Melanesia ally. Somare ordered the defense commander, the police commissioner and the chief secretary to deport Moti, who was then secretly flown to the Solomon Islands aboard a PNG defense force craft. A commission of inquiry found evidence that Somare acted beyond his powers, and the episode demonstrates how laws are discarded in the name of political expediency. Australia retaliated by refusing visas to all senior PNG ministers and officials for a period.

Credibility

The government actively cooperates with neighboring states and complies with the rules set by regional and international organizations as best it can. It is the unofficial leader of the Melanesian group of countries. As stated, the limited capacity of the PNG bureaucracy means that it sometimes is not able to deliver on its international obligations. The Moti affair has also had a negative impact on cooperation with Australia.

Regional cooperation

## Strategic Outlook

During the period under review, Papua New Guinea made some progress on the economic front, but this was due more to the unexpected windfall generated by high oil and commodity prices rather than internal factors. The semblance of political stability that has come with the re-election of Michael Somare as prime minister constitutes an improvement. In a country where prime ministers stay in office for two to three years on average, the fact that Somare was re-elected after having served one full term may be seen as a major milestone in PNG politics.

In the short term, the biggest challenges facing the country are the need to stabilize its economy and maintain consistent growth. The global recession is expected to severely weaken PNG's major commodity and resource exports for several years. The key to PNG's long-term economic prosperity remains the much talked about natural gas pipeline that is to run from the Southern Highlands Province in Papua New Guinea to Queensland in Australia. This project, if it goes ahead, will generate more than \$300 billion in direct government revenues over thirty years and provide up to 3,000 permanent jobs.

In order to mitigate the challenges, the government should concentrate on ensuring private sector expansion and on reforming the bureaucracy to make it more efficient and private sector-friendly. The government must also take some concerted action to combat high-level corruption and to secure its monopoly on the use of force throughout the country. The government must undertake real reforms in order to reduce the cost of doing business in the country and open up the economy to foreign investors.