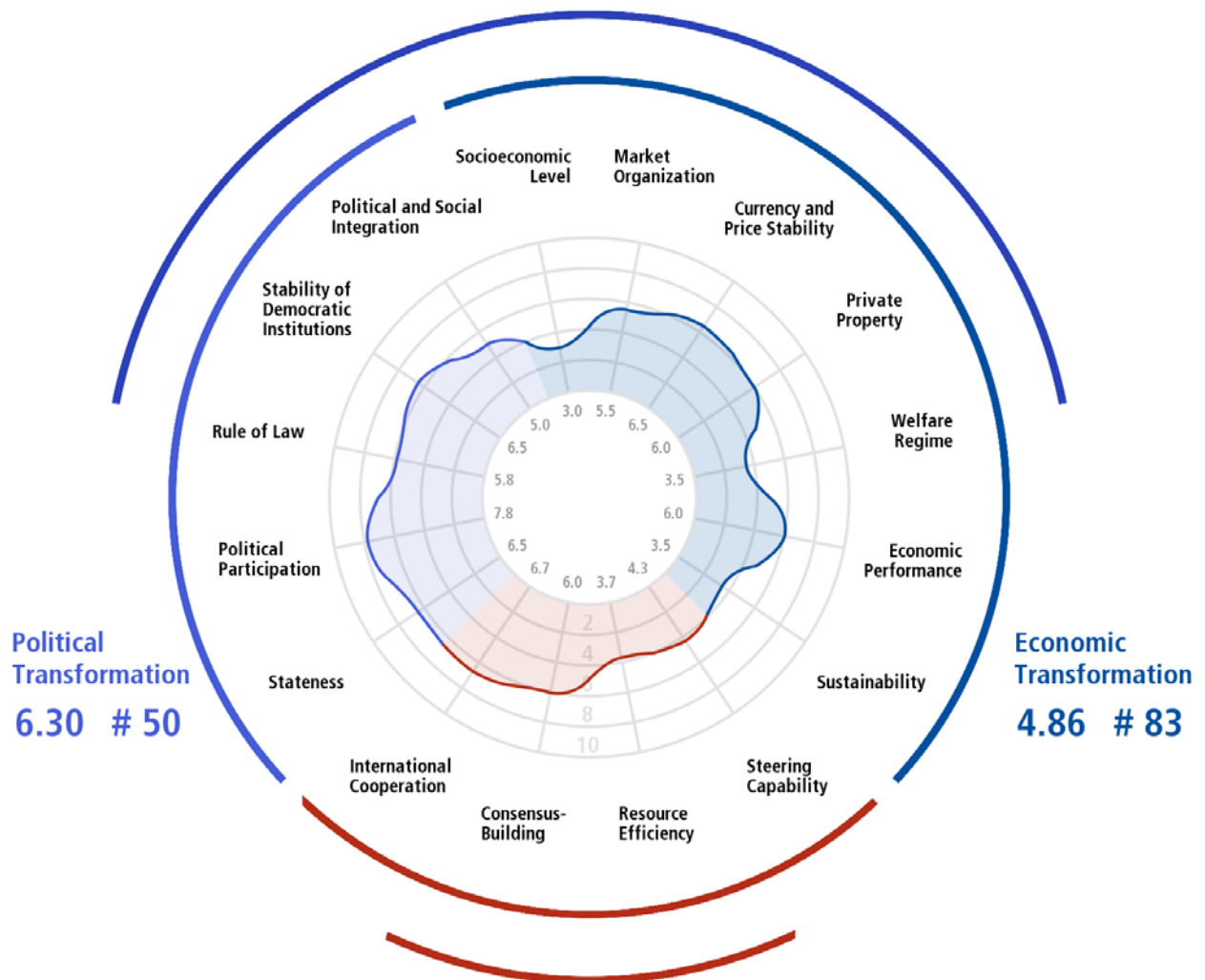


# Papua New Guinea

## Status Index

**5.58 # 61**

on 1-10 scale out of 129



**Political Transformation**  
**6.30 # 50**

**Economic Transformation**  
**4.86 # 83**

## Governance Index

**4.78 # 72**

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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## Key Indicators

Population	M	8.1	HDI	0.516	GDP p.c., PPP \$	-
Pop. growth <sup>1</sup>	% p.a.	2.1	HDI rank of 188	154	Gini Index	41.8
Life expectancy	years	65.4	UN Education Index	0.450	Poverty <sup>3</sup>	% 65.6
Urban population	%	13.0	Gender inequality <sup>2</sup>	0.595	Aid per capita \$	74.5

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

In the period under review, the most prominent issue is the reputation of the prime minister, Peter O'Neill. He is widely perceived, inside and outside Papua New Guinea (PNG), as being involved in shady dealings and increasingly authoritarian. Many people are also uneasy about his relations with Chinese businessmen who have access to special deals with the government. His utmost priority is to remain in power and win the 2017 elections.

Recent years have seen tendencies toward autocratic behavior on the part of Prime Minister O'Neill and his government. This was most notable in his responses to the issue of an arrest warrant against him, but also in handling the UBS loan and the Sustainable Development Program (SDP) issue, in bypassing parliamentary debate to avoid votes of no confidence, and in attempting to silence critics.

There appears to be growing popular discontent with the O'Neill government but, using a mixture of threats and bribes, he was able to overcome a parliamentary no confidence vote in 2016. His political position strengthened at the end of 2016 when his People's National Congress party claimed 52 seats in the 111-seat legislature, having gained members through party-hopping and attracting independents. Election outcomes are hard to predict in Papua New Guinea, but O'Neill seems to have a good chance of re-emerging as prime minister in 2017. If he does, it is probable that these autocratic tendencies and high-level corruption will continue. Meanwhile, with a small and thus largely ineffective parliamentary opposition, challenges to the government have been pursued through the courts, putting increasing pressure on the judiciary. Initially the challengers had some success, but the reversal of several decisions in late 2016 has led some to question the integrity of the judiciary.

Economically, the period under review has seen declining growth and growing fiscal problems for the government. The government has responded by spending cuts, which are impacting heavily on key areas such as health, education and infrastructure. With a second large liquefied natural gas

(LNG) project and several prospective mining ventures on the near horizon, together with aspirations to raise agricultural output and develop tourism without increasing environmental damage, the government remains optimistic, but sound economic management is required to avoid a crisis. The falling commodity and gas/oil prices will mean the windfall many expected a few years earlier will not happen in the next two years.

## History and Characteristics of Transformation

Prior to colonial rule, Papua New Guinea was a land of largely autonomous local communities, speaking over 830 separate languages. At independence in 1975 many of these communities still had little contact with the colonial government, and the country was not ready for independence. A constitution was drawn up, after lengthy popular consultation, by a Papua New Guinean Constitutional Planning Committee. It provided for a Westminster-style, unicameral system of government. But most of the country was still relying on traditional political structure and the Western system was little understood and unsuitable.

After initially rejecting proposals for political decentralization, the incoming government of the independent state, led by Sir Michael Somare, opted for a system of decentralization based on nineteen provinces and a National Capital District (Port Moresby); in later years two more provinces were added. The provinces are sometimes grouped into four regions: Islands, Highlands, Momase and Southern (or Papua). The provinces contain 89 districts. A “reform” of the provincial government system in 1995, nominally in the interests of greater decentralization, has in fact had the effect of shifting power back to the center, and into the hands of national members of parliament. The end result was a further fragmentation of the political system.

In its first decade, the country consolidated parliamentary democracy and an open economy, supported by a fairly high level of development assistance, mostly from the former colonial administrator Australia. PNG began to experience problems from the late 1980s when the Bougainville war erupted. Widespread Corruption, “big man” politics and a deterioration of law and order have caused the country to spiral downwards since.

Since independence all national elections have been held on schedule and, notwithstanding violence and electoral irregularities, the overall outcome of elections has not been challenged. However, with only a partially developed political party system, and a steadily increasing number of candidates at nearly every election, the political system has been fluid. Every government since independence has been a coalition, frequently of several parties and independents – and individual MPs have switched parties and parties have switched coalitions. Until 2002, no government lasted a full five-year term in office, the majority being removed by a parliamentary vote of no confidence. In 2001, an Organic Law on the Integrity of Political Parties and Candidates (OLIPPAC) was passed in an attempt to stop “party-hopping,” but it proved to be largely ineffective. The government of Sir Michael Somare, 2002 to 2007, is the only government to have lasted a full term. Somare returned to power in 2007 but was removed in a political coup, when,

in his absence overseas, his party split and the parliament voted in Peter O'Neill. The Supreme Court ruled against Somare's removal but O'Neill simply ignored the ruling. The impasse created was resolved by O'Neill's election as prime minister following a national election in 2012.

Over the past two decades or so, the emergence of large coalitions, under governments led by Sir Michael Somare and then by Peter O'Neill, have fostered the growth of executive dominance over the legislature, which has been seen by many as a threat to the country's parliamentary democracy. Parliament itself is not any better, with many members of parliament charged with corruption and others simply enriching themselves using their position.

Disputes between the national government and the people of Bougainville province in 1989 resulted in the closure of what was PNG's largest resource project and government revenue source, and led to an armed conflict which was finally resolved in 2001 by the Bougainville Peace Agreement. Under the agreement an Autonomous Bougainville Government was established and a future referendum was to be held on the political status of Bougainville, with independence an option. This referendum is to be held in 2019.

Economically, Papua New Guinea's record has been poor. The country has proved to be rich in resources (notably oil and gas, copper and gold, and timber), but generally poor economic management and problems of law and order, together with a high rate of population growth, have meant that improvements in living standards and service provision have been marginal, if not negative. Over 80% of the population depends wholly or partly on subsistence agriculture. Poverty remains widespread and the rural areas largely depend on foreign aid for basic services.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

In much of the country the authority of the state is not really challenged or accepted, but viewed as irrelevant. Intergroup fighting continued, and continues, particularly in the more recently-contacted and volatile highlands provinces. “Raskol” gangs, involved mostly in petty crime, emerged and proliferated in urban and rural areas. Raskol gangs have also become increasingly associated with some politicians, and in recent elections, supporters of some candidates in the highlands have been armed with automatic weapons (the term “warlord” has acquired some currency in the highlands). Automatic weapons are also being used increasingly in intergroup fighting, and police are often reluctant to intervene because they are outnumbered and outgunned.

In the period 2015 to 2016, there was continued intergroup fighting in Hela Province and in 2016 calls for the declaration of a state of emergency. In January 2017, more than 300 police and Papua New Guinea Defense Force (PNGDF) personnel were deployed to eighteen declared fighting zones in Hela Province in a security operation to stop “tribal fighting” and secure the surrender of firearms. Earlier, defense force personnel had been deployed to the province to provide security for the PNG-LNG project. Many urban businesses and resource projects around the country employ the services of private security companies, several of which are linked to prominent politicians.

The approaching referendum on the future status of Bougainville poses a potential threat to the integrity of the Papua New Guinea state. It also has the prospect of renewed conflict if a prime minister refuses to accept a Bougainvillean vote for independence, as Prime Minister O’Neill has suggested he would do. At present, several informed Bougainville observers believe that a vote for independence is a strong possibility. Encouraged by the granting of autonomy to Bougainville, a second province with a major mining project, New Ireland, has unilaterally declared itself

Question  
Score

Monopoly on the  
use of force

5

'06 '18 10



1

autonomous. Autonomy has also been mooted in another Islands region province, East New Britain.

Although Papua New Guinea is linguistically very diverse and its people lack any history of “nationhood,” the vast majority of its population is Melanesian (the exceptions being a few small communities of Polynesians on outlying islands and relatively small numbers of ethnic Chinese, Europeans and Polynesians who have become naturalized citizens). It is also overwhelmingly Christian, though there is a growing number of Muslim immigrants (an estimated 5,000) – mostly from Indonesia and India – and Papua New Guinean converts to Islam.

In pre-colonial Papua New Guinea, the largest political unit was the clan or village (a village, or conglomeration of hamlets, was typically divided into several clans); however, clans or villages might be involved in temporary alliances with other clans or villages. “Tribal” warfare was endemic in most of the country. For most communities, outside contact came in the late nineteenth and early-to-mid-twentieth century, through missions, who sought to convert people to Christianity but also brought education, health services and new economic activities, and often undermined traditional sources of authority. The colonial administration, which was tenuous in many parts of the country, sought to wipe out intergroup fighting, establish basic legal and political institutions (the latter through setting up local government councils), and provide basic services (primarily health, agricultural extension and education). At independence, these functions were assumed by the new state, but it is arguable that there was little concept of the state, and a weak sense of national identity, and the government was seen primarily as a source of largesse. On the other hand, the population’s ethnic diversity meant that Papua New Guinea has not suffered from the competition among major ethnic groups for control of the state that plagues many other developing countries.

Citizenship laws are restrictive. Some West Papuans who fled across the border into Papua New Guinea when Indonesia took possession of the former Dutch New Guinea were granted citizenship but later arrivals were not, despite recognition of their rights in the constitution. In 2016, Prime Minister O’Neill signaled a change in policy when he said that the resident West Papuans (of whom there are several thousand) would be granted citizenship. This has not happened yet.

There are many cases of foreigners with high-level political connections who were able to secure citizenship despite not meeting the requirements. The most prominent one was an Indonesian businessman.

Although the state is secular, the constitution does refer to PNG as a Christian country. Christian religious leaders remain influential and their influence can be seen in the way some individual church members have supported candidates in past elections. While Christian denominations, as in Europe, for example, try to influence politics and public opinion on issues such as family law and women’s and gay right,

State identity

8

'06 '18 10

8

1

No interference of religious dogmas

9

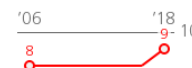
this is not problematic per se. Despite this, some Christian leaders openly called for PNG to be declared a Christian state. Also, policymakers who take church leaders' opinions seriously do not pose a problem to the secular order of the state as long as the religious groups operate like other interest groups in the political arena.

Almost all political parties claim to be guided by Christian principles. The political process is secular and freedom of religion, by and large, is respected. Because more than 90% of the population adheres to Christianity, policymakers take church leaders' opinions seriously. Several priests have resigned from their duties with the Roman Catholic Church to pursue a full-time political career, the most prominent example being John Momis, president of the Bougainville Autonomous Government.

While administrative capacity is better developed relative to many other post-colonial states in the South Pacific, the state apparatus has problems to implement even basic policies. The government's operational machinery is dilapidated in many rural areas and the highlands. Part of the problem is transportation. For instance, there are no roads to the highlands.

Therefore, the provision of many public services such as health care is uneven across national territory and highly deficient outside of the vicinity of major towns and provincial capitals.

Despite attempts over the years to improve administration through devolution of functions to district and local level, and the granting of discretionary funds, through District and Provincial Services Improvement Programs to the country's 111 MPs for their electorates, the state's presence at the local level is weak. This is largely due to the limited capacity of local-level governments, the cost and logistic difficulties of reaching remote areas, and the deterioration of infrastructure. In the past two years, delivery of basic services has gotten worse in the highlands and the outer islands, as the central government cuts back funding on maintenance. In some areas of the country, basic services such as electricity and water have broken down completely.



Basic administration

4



## 2 | Political Participation

Elections for the national parliament are held every five years (the next election will be held in mid-2017; preparations were under way and prospective candidates were already in election mode in the period under review).

Despite shortcomings of the electoral process, the overall outcome of elections has been widely accepted.

A large number of candidates stand in elections in Papua New Guinea: the number has increased in all but one election and in 2012 reached 3,428 candidates for the 111 seats – an average of 31 per constituency. In an attempt to reduce the number of candidates contesting, in 1982 the nomination fee for candidates was raised from

Free and fair elections

6





PGK 100 to PGK 1000, but on appeal by the Ombudsman Commission the Supreme Court ruled against the increase as a violation of constitutional rights. In 1992 the fee was raised to PGK 1000 without challenge. However, in 2016, Prime Minister O’Neill controversially proposed to raise the fee to PGK 10,000, and also to raise the fee for an electoral petition from PGK 5000 to PGK 20,000. Parliament will consider legislation to implement these and other changes to electoral laws in 2017. The opposition will oppose the move.

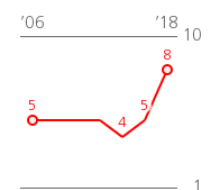
Voting is not compulsory but turnout is high (accurate figures are not available because electoral rolls are unreliable, generally showing much larger numbers of voters than population figures would suggest), and despite large numbers of candidates most voters are well informed on who the candidates are in their constituency. From 1977 to 2007, voting was on a first-past-the-post (FPTP) system. In 2007, the system was changed to one of limited preferential voting (LPV). One of the arguments used for a shift to LPV was that this might improve the chances of women being elected, but there has been little evidence to support this: in the 1997 to 2002 parliament there were two women MPs among the 109 members; in 2002 and 2007 only one woman was elected, and in 2012 three in a house of 111 members. In December 2015, it was reported that the National Executive Council had approved a reversion to FPTP, but no further action appears to have been taken on this.

Elections are keenly contested, with campaigning beginning several months before the election, and, in many electorates, particularly in the highlands, attempts by candidates and their supporters to rig the rolls, secure sympathetic polling officials and buy or otherwise secure voter support. During voting, some candidates also employ intimidation (and especially coercion of women) and theft of ballot papers to influence outcomes. Police, locally-based police reservists and PNGDF personnel have been used (and will be used in 2017) to assist polling officials. After the election there are always some recriminations against voters who accepted incentives but did not vote as they were expected to, and legal disputes (through courts of disputed returns) over results. Sometimes losing candidates initiate appeals as a means of gaining ‘compensation’ from legitimately elected candidates.

Elected leaders have the constitutionally mandated power to govern. Despite apprehensions expressed in the pre- and early post-independence years of a possible military coup, with the exception of a few minor acts of rebellion by the Papua New Guinea Defense Force (PNGDF), has not challenged the authority of the government. In fact, the PNGDF has been called out on several occasions to assist the Royal Papua New Guinea Constabulary (RPNGC, the police) to maintain law and order, including to secure the 2002, 2007 and 2012 national elections. The RPNGC itself has for some time suffered from poor capacity, low morale and internal factionalism, which was particularly apparent during the period under review. Following allegations of nepotism and bias, in January 2017 the acting police commissioner announced that recruitment to the RPNGC had been suspended for 2017. The current commissioner

Effective power to govern

8



is widely seen to be partial to the incumbent prime minister and several attempts to remove him have failed. He has blocked several corruption investigations against the prime minister.

Sometimes, powerful business groups and interest groups such as landowners, or powerful individuals (referred to as big men) aim to intervene in or subvert government policies. Regional groupings such as the Highlanders, also exercise veto power over the political process if they feel they, or their region, are marginalized.

But overall, democratic institutions or outside groups neither attempt nor have sufficient power resources to undermine democratic procedures in a more systematic or fundamental way.

There are no restrictions on 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. There is no law that restricts the work of NGO or civil society groups and no registration is required to establish a civil society group or NGO. During elections, it is common for NGOs to take an active part in voter education, although due to the security situation and violence, such work is mainly confined to urban areas. There has been some history of peaceful popular protests in the capital, Port Moresby, but on occasion these have been associated with violent incidents, and police have become increasingly inclined to refuse permission for protest marches and rallies. However, in 2016 attempts by police to prevent a student protest resulted in a confrontation in which several students were wounded when police opened fire on protesters.

Papua New Guinea enjoys what has been described by a former Papua New Guinea journalist as “a rampantly critical social media.” There are two major daily newspapers – the Post-Courier, majority-owned by Rupert Murdoch’s News Ltd., and The National, owned by Malaysian logging company Rimbunan Hijau. Both provide critical commentary on political events and carry lively “letters to the editor” sections. Politicians (and others) also use full-page paid advertisements to advocate or defend political positions. In 2016, Reporters Without Borders’ Press Freedom Index ranked Papua New Guinea 55 out of 180 countries covered (down from 44 of 179 countries in 2014). However, during 2015 to 2016, several journalists complained of intimidation and death threats.

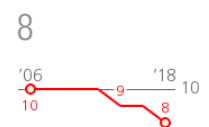
Social networking is growing with the spread of mobile phone use and political views are expressed through several robust blog sites. During 2015 to 2016, a Concerned Citizens Group called for a Day of Disobedience and work stoppage in protest against Prime Minister O’Neill, and bloggers criticized the O’Neill government and called on the prime minister to step down. In late 2016, the government passed a Cybercrime Code Act; the act was justified as a counter-terrorism measure, but many see it as a measure designed to gain control of social media. At an APEC meeting in Peru in 2016, attended by Facebook founder Mark Zuckerberg, Prime Minister O’Neill said

Association /  
assembly rights



1

Freedom of  
expression



1

that Facebook had become a tool of disruption in some societies and that online platforms had a duty to protect communities from the harm inflicted by lies and malicious slander. In December 2016, the National Information and Communications Technology Authority, citing “numerous complaints...regarding articles and statements appearing on blogs,” announced penalties of up to PGK 25,000 or 25 years jail for ‘abuse’ of ICT services, “particularly on social media platforms.”

### 3 | Rule of Law

For most of its history, Papua New Guinea has strenuously upheld the rule of law, and the judiciary has maintained a fairly high degree of integrity. Even at the village level, a system of village court magistrates has been established to arbitrate local disputes – though lack of ongoing training and monitoring has led to complaints about the functioning of the village magistrate system.

However, in 2011, the rule of law came under serious challenge when, in the absence of Prime Minister Somare, the National Parliament declared the prime minister position vacant and voted in Peter O’Neill as the new prime minister. Although there was little public outcry against the parliament’s action, it was challenged both by Somare supporters and by constitutional lawyers. The Supreme Court subsequently twice ruled the effective political coup against Somare unconstitutional, but O’Neill ignored the Court’s rulings and attempted to remove the chief justice. Parliament passed a Judicial Conduct Act giving the government powers to sack judges, and also retrospective legislation seeking to disqualify Somare as a member of parliament. At the same time, Somare initially joined the O’Neill government, and in 2016 received compensation payments for the actions of O’Neill’s supporters, and the offending legislation was repealed.

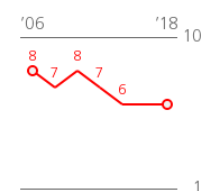
In the past two years, the general consensus on O’Neill is that he is behaving more and more authoritarian and regularly bypassing parliament and the courts when it comes to government spending. With increasing executive dominance over the legislature (as a result of large governing coalitions and weak parliamentary opposition), opposition has turned increasingly to challenging government actions through the courts.

Papua New Guinea has a hybrid legal system, comprised of English civil and criminal law, British colonial legacies and traditional (“customary”) law. Under the 1975 constitution, there is an independent judiciary with the Supreme Court as the highest court of the land and the British Judicial Committee of the Privy Council is the court of final appeal.

The judiciary is trained in the Anglo-Australian law tradition, enjoys safety of tenure and is generally free from political influences. However, the generally weak state capacity and the contradictions or tensions between different legal cultures, the

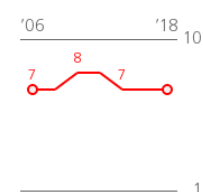
Separation of powers

6



Independent judiciary

7

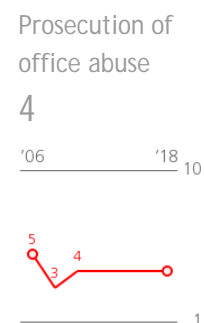


prevailing dominance of clan, family and “wantok” (“one talk” - the main organizing principle of PNG’s society, see 5.3) mean that the institutionally differentiated judiciary is only to some extent independent from social influences and powers, or functional. Finally, as is always the case with public infrastructure and institutions in PNG, there are substantial differences of the accessibility of courts and the legal system by region, race and gender.

On assuming office in 2011, O’Neill had established an Investigative Taskforce Sweep to pursue allegations of corruption, including charges against several prominent politicians. But when in 2014 Taskforce Sweep requested O’Neill and his finance minister, James Marape, to attend police interviews over charges of corruption, the prime minister refused and arrest warrants were issued against the two. O’Neill responded by removing the police commissioner, Toami Kulunga, and suspending officers engaged in the investigation, disbanding Taskforce Sweep and firing the head of the taskforce, Sam Koim. The Supreme Court subsequently issued a permanent stay order against the decision to disband Taskforce Sweep, but its ruling was thwarted by the government’s withholding of funding allocated to the taskforce, and in December 2016 the court ruled that the disbanding of the taskforce was a policy decision and not reviewable by the court. The same month, the Supreme Court upheld an appeal by former police commissioner Geoffrey Vaki against his conviction and sentence to three years jail, in June 2015, for contempt of court. And in November 2016, the court dismissed 28 charges of abuse of office and misappropriation against O’Neill-appointed attorney general, Ano Pala, against whom an earlier charge of perverting the course of justice (in relation to the O’Neill arrest warrant) had also been dismissed in 2016. At the beginning of 2017, legal actions over the arrest warrant against O’Neill were still ongoing.

O’Neill was also challenged over a decision to borrow \$1.1 billion through the Swiss financial services company UBS, after ignoring the advice of the attorney general that the borrowing required parliamentary approval. The dissenting attorney general was replaced, and when Treasurer Don Polye refused to sign off on the loan he also was dropped from cabinet. Polye, who later took over as leader of the opposition, initiated a legal challenge and the Ombudsman Commission conducted an investigation which found that O’Neill had acted improperly and referred him to a Leadership Tribunal. However, in April 2016 the Supreme Court dismissed the charges against the prime minister over the UBS loan.

Throughout these proceedings, the judiciary has retained its independence but it has come under increasing pressure as it has been drawn into the processes of political contestation. In April 2016, respected Justice Sir Bernard Sakora was charged with judicial corruption by members of the police National Fraud and Anti-Corruption Directorate (NFACD) over the sale of a vehicle to a company at the center of the corruption charges involving Prime Minister O’Neill. Some commentators saw the



charge as politically motivated, and the case against Sakora was dismissed by the courts on procedural grounds.

The actions of O'Neill and his appointees have exacerbated tensions within the RPNGC, especially between the National Fraud and Anti-Corruption Directorate (NFACD), which had initiated the arrest warrants against O'Neill and Marape, and the Special Services Division which remained loyal to the police commissioner – and through him, to O'Neill. This has impacted on a force which has for some years suffered from under-resourcing, low morale, poor discipline and charges of police brutality. Following allegations of nepotism and bias in appointments to the RPNGC the acting police commissioner announced in January 2017 that recruitment had been suspended for 2017.

The constitution guarantees the basic human rights of its citizens and upholds “equal opportunity for every citizen to take part in the political, economic, social, religious and cultural life of the country.” But for women, in particular, these rights are not always observed. Papua New Guinea reportedly has one of the world’s highest rates of violence against women – even in communities where clan structures are matrilineal. A Family Protection Act was passed in 2013 and a number of awareness programs have been launched, but domestic violence is still widespread and women are underrepresented in parliament and at senior levels of bureaucracy and business.

In parts of the country where traditional beliefs in sorcery are still strong, the killing of alleged sorcerers occurs regularly. In recent years, deaths related to HIV/AIDS but attributed to sorcery have resulted in an increased incidence of murder and torture of suspected sorcerers and witches, mostly women. In 2016, a conference organized by the Constitutional and Law Reform Commission and attended by representatives from government, churches and NGOs endorsed a Sorcery National Action Plan to address problems related to alleged sorcery and proposed to seek funding to implement the plan. While it is too early to evaluate the impact of this action plan, the increased public attention for the issue and the willingness of government and civil society to work together constitute a positive development.

One of the biggest problems in this area is the police. The police force in PNG is widely known for its brutality toward suspects and persons under arrest. Police discipline has been an issue for many years and despite many rounds of reforms, the problem persists.

Civil rights

6



#### 4 | Stability of Democratic Institutions

The adoption of the OLIPPAC in 2001 was designed to create greater stability of parliament by restricting the ability of parliamentarians to change their party allegiance or switch support once they had voted for a prime minister (though this did not stop MPs from crossing the floor in 2003-2004). However, in 2010 the Supreme Court ruled that sections of the OLIPPAC were unconstitutional in that they impinged on the rights of parliamentarians.

On becoming prime minister in 2012, O'Neill announced that he would review the provisions regarding votes of no confidence and review the OLIPPAC. In 2013, he won parliamentary support for an extension of the grace period to thirty months and several other amendments which made votes of no confidence more difficult. However, in September 2015, the Supreme Court ruled these changes unconstitutional. O'Neill, working with the registrar for political parties Alphonse Gelu, also initiated a revision of the OLIPPAC, but as at the end of 2016, the revised OLIPPAC had been tabled but not considered by parliament, notwithstanding pressure from Gelu and former Chief Ombudsman Ila Geno.

O'Neill now seems set to become the second prime minister to survive a full term. His People's National Congress party in 2016 enjoyed the largest number of seats held by any party since independence (52 of the 111 MPs). But the party system remains fluid, with some smaller parties disappearing between 2012 and 2016 and new parties emerging in the run-up to the 2017 election. One persistent problem faced by PNG is the "big man" mentality among senior political leaders, where political power is personal and allows the prime minister to circumvent the formal procedures. These actions are meant to enhance the powers of the big man and thus corrupt the democratic institutions.

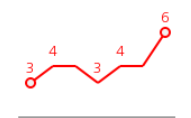
The Ombudsman Commission continues to play an important role in Papua New Guinea's democratic system, but has expressed concerns that the government may be attempting to undermine it, especially after the prime minister warned it not to impede in the work of the executive government (in relation to the UBS loan issue).

During the period under review, Prime Minister O'Neill sought to stay in power by meddling in democratic procedures: in 2015 two no confidence motions were rejected as "defective" by the coalition-dominated Permanent Parliamentary Committee on Private Business, and the house adjourned early to avoid such a vote in June 2016. The adjournment to August 2016 took parliament into its final twelve months before an election, during which a successful vote of no confidence results in the dissolution of the house, and thus has never been attempted. On appeal, the Supreme Court intervened and called on parliament to reconvene and vote on the motion. The vote subsequently took place and was rejected by 85 votes to 21. Ironically, O'Neill supporters complained that the Court's intervention violated the separation of powers

Performance of democratic institutions

6

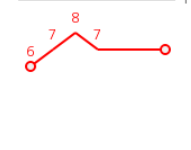
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Commitment to democratic institutions

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between the legislature and the judiciary. O’Neill himself has, on several occasions, referred to the “mandate” he received in 2012, seemingly implying that this overrides the legislative and judicial powers.

## 5 | Political and Social Integration

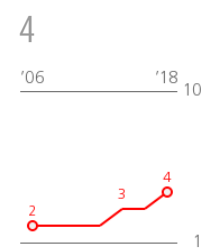
Papua New Guinea lacks the major ethnic and religious fault lines from which many countries suffer. Although recent decades have seen the emergence of a largely urban middle class, Papua New Guinea society is also devoid of marked social class divisions. This is reflected in the country’s fluid political party system: parties are essentially non-ideological, lack mass bases, have similar platforms, tend to revolve around key personalities and are often short-lived.

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 and a high attrition rate of incumbent parliamentarians. The Organic Law on Political Parties and Candidates (OLIPPAC), 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, has not stopped members from defecting in the past two years. Thus far, parliament has rejected any attempt to strengthen the OLIPPAC by allowing the registrar of political parties’ access to the bank accounts of individual members of parliament and political parties.

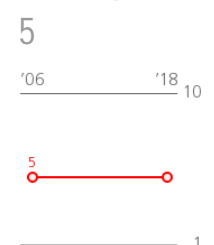
In sum, the main problem with political parties in PNG is the combination of “big man” politics together with no ideological positions and the lack of proper party machinery. All major political parties in PNG are centered on a single big man or a single region. Members elected to parliament try to maximize personal benefit through corruption rather than looking after the long-term interests of the country. Public policy is not a priority for political parties. Thus, defections and coalitions of convenience are common methods used to get into power, and this in turn causes political instability and further weakens the party system.

Although there are plenty of interest groups and civil society organizations (CSOs) in PNG, only a handful of these have real access to power and policy-making. The powerful interest groups are those connected with business groups or commerce, Christian groups or those based around a region or province. Important groups such as women’s rights organizations are often left out of the decision-making process. A major problem for interest groups, faced by individuals and by rights organizations alike, is the lack of support from members of the wider public. Interest groups are frowned upon by the government and its representatives and often simply lack the skills to properly air their views on issues. In the period under review, CSOs tried to overcome their weakness by holding a PNG National CSO Round Table in Port Moresby. However, there is little evidence that PNG CSOs are able to come together in a coherent manner unless supported by donor agencies.

Party system



Interest groups



As noted in the BTI 2016 report, consent to Western-style democracy appears to be solid among citizens, though there is only few, often dubious and not very recent survey data available to support the anecdotal evidence. The constitutional framework is fully accepted by most segments of society. Surveys done prior to elections showed the majority of those surveyed supported democracy under the principles of one-person-one-vote, regular elections and a Westminster-style government.

At the same time, however, it is clear that outside the major urban centers, people are indifferent to the everyday functions of democracy. For most people, democracy simply means elections. In recent years, increasing numbers of PNG intellectuals have started to argue that Westminster-style democracy cannot work in the country given the incompatibility of its strong community-based traditions and modern democracy's individualistic approach. They called for a hybrid form of democracy called "the Melanesian way," although it is unclear what this would entail. It appears at the most basic level that Melanesian democracy would mean traditional leadership based on culture and kinship.

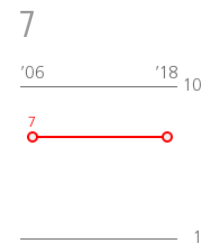
Public activism and protests remained vivid throughout much of 2016 and, with the prospect of parliamentary election in mid-2017, became even more dynamic toward the end of the review period. Especially the country's social media community is political active and provides a wealth of different opinions and information for politically aware citizens. In 2006, tertiary students and non-governmental organizations were especially active carrying out community meetings intended to raise political awareness and inform voters about upcoming elections.

On the other hand, tribal allegiances, not political attitudes or values, play the key role in shaping voter's preferences. Even though the change from the first-past-the-post system to a preferential voting system in 2007 influenced voter behavior as voters have three votes and therefore more freedom to express different candidate preferences, the new system has contributed to a new form of "votes auctioning" in which voters auction two of their three preferences, shrewdly encouraging bribery.

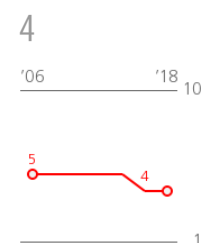
There is very little empirical data available which would support reliable assessments about the strength or weakness of social capital in PNG. Generally, observers seem to agree that the existence of complex social webs and networks of reciprocal obligations based mostly on ethnic, language, tribal or clan identity (so-called "wantok" system) provides the basic foundations for existing social capital, social trust and cooperation within (but not across) social groups.

The wantok system constitute perhaps the most important source of social capital in Papuan society. Yet it primarily provides a source of binding rather than bridging social capital, strengthens non-voluntary vertical linkages of patronage and often comes with considerable financial burdens and social responsibilities of individual members of wantok networks. There are other forms of social self-organization that

Approval of  
democracy



Social capital





contribute to the reproduction of (binding) social capital that are based on “horizontal ties cutting across kinship lines or wider social networks” in PNG, such as NGOs, church groups, youth and women organization and trade unions. Yet these organizations are less relevant compared to the wantok system of social relationships based on language, kinship, region or religion.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Papua New Guinea is a predominantly rural society: around 80-85% of the population rely largely on subsistence agriculture, frequently supplemented by cash cropping (mostly coffee, cocoa, oil palm and copra) and/or the sale of vegetables and betel nut in local markets. Some communities receive royalties, and in some cases compensation, from mining, oil and gas, and logging projects in their area. In 2002 It was estimated that only 5.6% of the working age population were engaged in formal sector employment (this figure, the lowest of all Pacific island countries, probably has not changed significantly) and, in towns, to which many young men migrate in search of work, unemployment rates are high.

Per capita GDP (PPP) was estimated at around \$2,500 in 2016. The Gini coefficient was estimated at 50.9. On the UN’s Human Development Index in 2014 Papua New Guinea ranked 158 of the 188 countries. Although the Gender Inequality Index declined from 0.682 in 2005 to 0.595 in 2015, this is still the second highest level of gender inequality in the BTI’s Asia and Oceania region, at least for those countries for which data is available.

There is no official figure for poverty in Papua New Guinea, partly because, with such a large proportion of the population engaged in subsistence agriculture, commonly used indicators may overstate the actual situation in rural communities. However, on the basis of a 2009 to 2010 household income and expenditure survey (the first HIES since 1996), and taking account of the value of subsistence production, a national poverty rate (based on the cost of 2,200 calories per adult per day plus essential non-food items) has been calculated at around 37%. This suggests that despite the growth in GDP there was no decline in poverty between 1996 and 2010. The data also reveal that poverty is a predominantly rural phenomenon and that there are marked variations between and within provinces (greatest poverty in the Highlands Region and lowest in the Islands Region).

Low levels of education, literacy and workplace skills, together with poor transport infrastructure, restrict employment opportunities and access to markets for much of

Question  
Score

Socioeconomic  
barriers

3

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the population, and the welfare of rural communities is vulnerable to drought, frost and flooding. Both drought and floods heavily impacted upon many parts of the country in 2015 to 2016, and forced the temporary closure of the Ok Tedi gold and copper mine, a major contributor to exports and revenue.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	15413.2	16928.7	-	-
GDP growth	%	5.5	8.5	-	-
Inflation (CPI)	%	5.0	5.2	6.0	-
Unemployment	%	2.6	2.6	2.5	<b>2.5</b>
Foreign direct investment	% of GDP	0.1	-0.2	-	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-3450.1	2386.9	5689.6	-
Public debt	% of GDP	24.9	27.1	30.8	<b>34.6</b>
External debt	\$ M	21609.7	20428.7	20494.0	<b>19688.5</b>
Total debt service	\$ M	1263.1	1168.5	1099.4	<b>3814.9</b>
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	3.9	3.5	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.7	0.7	-	-

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

In the lead-up to independence there was debate over concentrating on high growth areas, with expected trickle-down effects, versus concentrating on the promotion of local enterprise. As embodied in the National Goals and Directive Principles of the constitution, the emphasis was placed on local participation and equity, and certain low-skill activities were reserved for Papua New Guineans. However, foreign investment was, and is, encouraged and much of the manufacturing, mining, finance, service, and to a lesser extent agriculture sectors remain in foreign hands, initially Australian and European but increasingly Asian.

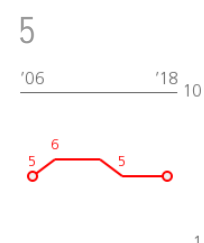
An Investment Promotion Authority (IPA) was set up to promote and oversee foreign investment. Big resource projects, like the LNG project, however, are negotiated individually and have often been granted generous tax-free holidays and accelerated depreciation allowances. The IPA is widely seen by the foreign business community as inefficient and mocked as the “Investment Prevention Authority.” There are credible reports of corruption in the registration of companies, with many companies registered as a “national” (local PNG) entity when in reality it is owned by foreigners.

On the World Bank’s Index of Difficulty of Doing Business, Papua New Guinea ranked 119 out of 190 countries for 2017, an improvement on its ranking of 133 for 2016. However, most of this improvement was due to improvements in its rankings on getting credit (up from 109 to 32) and starting a business (136 to 130); on all of the other eight measures, including enforcing contracts, getting electricity and dealing with construction, Papua New Guinea’s ranking declined. A particular complaint has been over delays and allegations of bribery in the issuing of visas for overseas employees. Some of the grievances cited by prospective investors relate to legitimate safeguards to protect Papua New Guinean workers and the environment, especially in relation to mining and logging, which have both had a poor record in Papua New Guinea. In particular, there is ample evidence that, aside from illegal logging, the logging industry has frequently ignored regulations on the size of log exports and has indulged in transfer pricing. Recent data also suggests that there has been an influx of illegal foreign workers, particularly from China.

Not surprisingly, given the size of the market, in key areas of the economy have been dominated by state-owned enterprises or large private companies, especially public utilities. The informal sector is believed to be large, although reliable data are not available.

In 2002, new competition and utility regulation laws were enacted through the Independent Consumer and Competition Commission Act. An Independent Consumer and Competition Commission (ICCC) set up under the act took over functions previously exercised through the Prices Controller and the Consumer Affairs Council, but also took on the regulation of government-owned utilities (now

Market-based  
competition



mostly corporatized) providing electricity, telecommunications, water, postal, ports and harbors and compulsory third-party motor vehicle insurance services. Price regulation by the ICCC is limited to goods and services declared by the government (currently flour, rice and sugar). The national currency (Kina) is not freely convertible.

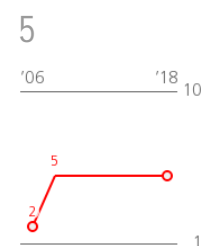
Although there are institutions such as the Independent Consumer and Competition Commission (ICCC) in place to regulate against monopolistic behavior, in reality the small size of the PNG economy has ensured that large companies operate as oligarchies and monopolies. For example, the state-owned enterprises PNG Power (electricity), Telikom and Eda Ranu (water utility) hold virtual monopolies in their respective sectors. In the financial sector, three banks (Bank South Pacific (BSP), Australia New Zealand (ANZ) Bank and Westpac PNG) control more than 90% of the financial market. BSP alone controls at least half. In 2016, there were attempts by the government to create a monopoly on rice imports – it wanted to create a quota of 80% rice imports to go to a new government-owned entity, Naima Agro-Industry Ltd. The strongest opposition came from Trukai Industries, an Australian-owned company that controls more than 80% of the rice business in PNG. In other words, the government move was simply to replace a foreign-owned monopoly with a local one. It was not meant to encourage competition.

In August 2013, the PNG Takeovers Code was amended to include a “national interest” test, whereby the Securities Commission has power to “issue an order preventing a party from acquiring any shares” if the Securities Commission views that such acquisition or takeover is not in the national interest. It subsequently exercised its powers under this provision to prevent Kulim Malaysia Berhad from increasing its share of New Britain Palm Oil Limited from 49.97% to 68.97%. Observers generally agree that this action represents the exception rather than the norm, and that there were political issues driving it.

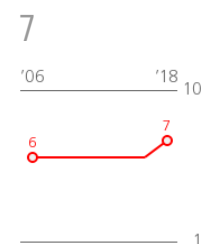
On the whole, action against monopolistic behavior by firms is tolerated, especially if they are state-owned enterprises. Many large companies also have high-level political connections to protect them from legal sanctions.

The government encourages foreign trade, especially with those states participating in the Melanesian Spearhead Group (MSG) Free Trade Agreement (FTA), which includes Vanuatu, Papua New Guinea, the Solomon Islands and Fiji. However, bureaucratic red tape and the high cost of transportation between the island states constitute significant barriers to free trade and foreign investment. 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. In reality, inconsistent red tape, regulations and corruption stop many from starting businesses. The Investment Promotions Authority (IPA),

#### Anti-monopoly policy



#### Liberalization of foreign trade



supposedly a one-stop center for foreign businessmen, is often derisively referred to as the “Investment Prevention Authority.”

Logistics is a major barrier. The country’s rugged topography and lack of roads mean that the cost of doing business is extremely high. No roads link the lowlands with the highlands. Many parts of the country are only accessible by air or by ship. Basic infrastructure is nonexistent outside the major towns of Port Moresby, Madang and Lae.

The country’s leadership is committed to free trade and announced that it was planning to join the Trans-Pacific Partnership Agreement (TPP) and the Australian-initiated Pacific Agreement on Closer Economic Relations (PACER) Plus. However, both appeared to be non-starters. TPPA is a non-starter after the United States announced that it was withdrawing from TPPA in 2017 while in late 2016, the PNG trade minister announced that it was withdrawing from PACER Plus and would instead seek a bilateral trade agreement with Australia. The PNG government added that it was going to ratify the MSG FTA between PNG, Fiji, Solomon Islands and Vanuatu. It allows for the free movement of goods and services, investments and labor.

The government embarked on a tariff-reduction program in 2011. However, in practice, most items imported from MSG countries are tariff-free. PNG has completed the requirements for the accession to the Revised Kyoto Convention. In 2016, PNG formally accepted the 2005 protocol amending the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

For the foreseeable future, PNG’s foreign trade will be dominated by MSG countries, Australia and ASEAN countries, such as Malaysia and Singapore. The longstanding Papua New Guinea-Australia Trade and Commercial Relations Agreement has ensured that Australian companies remain the largest cohort among foreign business entities. Australia’s role as former colonial power has ensured that Australian companies have a distinct advantage in doing business.

In the banking sector, the state-owned PNG Banking Corporation was privatized as Bank of South Pacific in 2002 and two Australian-owned banks, ANZ Bank PNG and Westpac PNG were joined in 1994 by the Malaysian-owned Maybank PNG. In 2015 Maybank PNG was taken over by the locally-based Kina Group. There are also two state-owned banks, the National Development Bank (which plans to become a commercial bank in 2019) and the Nationwide Micro Bank (MiBank) set up in 2004 under the Asian Development Bank’s (ADB) Microfinance and Employment Project with assistance from AusAID. Estimates suggest, however, that only around 15% of the population have access to banking services – and most of those are in towns.

There is a small stock exchange with only about 20 companies listed and most of these companies are in the extractive industries. Many of these listed companies are

Banking system

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also dual-listed on the Australian Stock Exchange (ASX). Many individuals used these dual-listed companies to sell their shares in Australia to bypass PNG's exchange control.

## 8 | Currency and Price Stability

As a small, aid and commodity-dependent economy, Papua New Guinea is highly dependent on the international prices of its commodity exports and vulnerable to external commodity price shocks.

At independence, Papua New Guinea adopted a “hard kina” strategy, with a view to establishing the acceptability of the new currency and holding down the import-dependent cost of living in towns. Following a series of fiscal deficits in the early 1990s, in 1994 the government shifted to a floating exchange rate. In June 2014, with the value of the kina falling, the Bank of Papua New Guinea introduced “trading bands” (what the World Bank has termed a “de facto crawl-like exchange rate regime”), but with commodity prices falling, and currency depreciation restrained, this has resulted in an over-valued kina and a shortage of foreign exchange (estimated at around PGK 3 billion at end 2015) which reportedly impacted on business and investor confidence in the period under review.

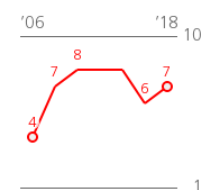
Inflation, measured by the CPI, has averaged around 6% over the past decade, rising to 7% in 2016. The fact that the CPI is sensitive to prices of imported goods may be a reason for the Bank of Papua New Guinea's apparent reluctance to see a depreciation of the kina.

The government and central bank policy of macrostability is aimed at attracting foreign investors and maintaining stable prices. The central bank's independence has been crucial to achieving these goals. Public debt is estimated to be 56% of GDP in 2016, (much higher than the 36% acknowledged in the budget), indicating a severe downturn in the economy. The deficits for 2013 and 2014 were 9.5% and 8.6% of GDP – higher than previous estimates.

The PNG Government's 2017 budget shows revenue falling by 2%, and has forecast a spending cut of 3.5% to compensate and stop the deficit from growing. The Government announced major spending cuts to capital investment, which has shrunk by 21% in the 2017 budget. The government is hoping to raise an extra PGK 620 million (\$255.6 million) through new taxation measures, so-called “sin” taxes by increasing duties on alcohol and tobacco and increasing the tax on bookmakers' turnover. The PNG Government had borrowed heavily in previous years in expectation of large revenues from the PNG-LNG project, but the crash in oil prices and the provision of generous tax concessions to investors left the country with high debt servicing costs. Confidence was made worse by the announcement that PNG

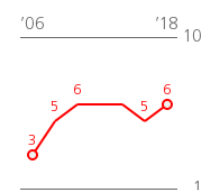
Anti-inflation /  
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will host the 2018 Asia Pacific Economic Cooperation Summit, which is likely to cost PGK 300 million.

## 9 | Private Property

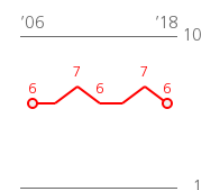
In general, Papua New Guinea respects private property rights and has encouraged foreign investment, taking up equity in several major resource projects. An Investment Protection Act prohibits expropriation of foreign assets and Papua New Guinea supports the Extractive Industries Transparency Initiative.

After taking office in 2012, however, Prime Minister O'Neill attracted criticism for expropriating the 63.4% equity in the Ok Tedi mine held by the Sustainable Development Program (SDP), and dismissing the SDP chairman, former central bank governor and prime minister, Sir Mekere Morauta (Morauta had succeeded Australian economist Ross Garnaut, the original chair of the SDP, in 2012 after Garnaut became persona non-grata with O'Neill over critical comments on the government's economic management). The SDP was set up in 2002 to take over the equity of former mine operator, BHP, and to manage a Long-Term Fund (currently holding an excess of \$1.4 billion) established for the benefit of the people of Western Province (where the mine is located) after the mine closes. Morauta promptly initiated legal action in Singapore. This was still before the Singapore Supreme Court in the period under review, but in October 2016 the court rejected applications by the Papua New Guinea state to amend its case and awarded costs to the SDP. A separate appeal by the SDP to the International Centre for Settlement of Investment Disputers (ICSID) was rejected on the grounds that the state had not given the necessary consent in writing for the ICSID to arbitrate.

As in the rest of the island Pacific, land ownership is governed by customary procedures, which vary from community to community but are essentially controlled by clans. Attempts to introduce individual titles and to provide for registration of land titles have made little progress. The passage of a Land Groups Incorporation Act in 1974, and the proliferation of incorporated land groups (ILGs) since 1992 in response to provisions of the Forestry Act and legislation and agreements pertaining to mining and petroleum projects, has not resolved the problems of determining land rights, notwithstanding amendments to the Land Groups Incorporation Act in 2009. As a result, disputes over land titles and land use are common, and companies involved in resource projects face major difficulties in negotiating with landowners and identifying legitimate landowners for payment of royalties and compensation. Virtually all major resource projects have been brought to a halt at some stage as a result of disputes with landowners. Mostly these have been overcome through negotiation; the closure of the Bougainville mine is the notable exception. This is doubtless one of the reasons for Papua New Guinea's low ranking on the World Bank's Index of Difficulty of Doing Business. Commentators, especially foreign

Property rights

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commentators, often suggest that lack of clear title to land, which could be used as collateral for bank lending, is an impediment to development; but in a predominantly rural society in which around 80% to 85% of the population rely at least partially on subsistence agriculture, land is never going to be effective collateral for rural lending.

During 2015 to 2016, a confrontation between landowners and the state surfaced in Hela Province in the area of the PNG-LNG project. At the inception of the project in 2009 an Umbrella Benefit Sharing Agreement was signed with over 60,000 landowners represented through ILGs. Almost immediately, disputes arose over the legitimacy of landownership claims, and these have not been resolved despite the creation of a “clan vetting process” (which in 2016 was declared null and void). Meanwhile some PGK 135 million of royalties and other entitlements has been set aside with a Special Purpose Authority. Frustrated at not receiving money due to them, landowners threatened to close down the LNG operation. In September 2016, police mobile squads were deployed to Hela to protect the LNG sites. Given the complexity of land ownership issues and of dealing with ILGs, these problems will be difficult to resolve. The grievances of landowners were exacerbated in 2016 when the government announced that a 4.27% equity in PNG-LNG held by the government on behalf of landowners within the Petroleum Development License Area was to be sold off to local government councils and individuals in the project area.

A system of Special Agricultural and Business Leases (SABLs) was introduced in 1979 in an effort to overcome problems caused by the lack of an effective legal mechanism for registering customary land titles. Under this arrangement the state leased land from customary owners and leased it back to those owners or other approved individuals or organizations for periods of up to 99 years. Prior to 1973, the amount of land transferred from customary ownership was small, but between 2003 and 2011 more than five million hectares (11% of Papua New Guinea’s total land area) was transferred to national or foreign corporate entities, the bulk of it ostensibly for agro-forestry projects which involved the clearing of forests for proposed oil palm planting. However, studies suggested that much of the land acquired through SABLs was unlikely to result in oil palm developments, and there were growing complaints that SABLs were being used by foreign leaseholders to separate land from traditional owners to conduct illegal logging. In 2011, a moratorium was imposed on the issuance of SABLs and a commission of inquiry was set up to review the system. The commission tabled its report in 2013 and recommended that the majority of SABLs be cancelled or suspended. In late 2015, a taskforce was created to report on how the government should implement the commission’s recommendations. This was still under consideration at the end of the period under review, though it has been reported that Prime Minister O’Neill has ordered the cancellation of all SABLs. In September 2015, the secretary of the Lands Department was suspended over allegations of corruption in issuing SABLs.



At independence, the Papua New Guinea government inherited a number of public utilities, most in areas of essential services. By 1981, the government had acquired interests in over 30 enterprises. During the 2000s, the government also acquired equity in several mining and petroleum enterprises. Between 1999 and 2002, several state-owned enterprises (SOEs) had been sold off, but with a change of government and in the face of some public opposition the privatization program stalled in 2002. An Independent Public Business Corporation (IPBC) was established in that year to act as trustee owner and authority for state-owned assets and enterprises; it managed several monopoly service providers, including PNG Power, Telikom, Water PNG, Post PNG and PNG Ports, under regulatory contracts. The enterprises were subsidized by government (to the estimated extent of \$178 million between 2002 and 2012) through grants, debt write-offs and asset donations. Their commercial performance, governance and accountability were generally judged to be poor. Beginning in 2007, the government began working with the Asian Development Bank (ADB) on a partial privatization program to improve the performance of SOEs and increase transparency and accountability. In 2014, it was announced that the O'Neill government was considering the partial sale of some of its SOEs. O'Neill was quoted as saying, "[T]he state's involvement in many areas of business has been incompetent, wasteful in the extreme and in some areas corrupt." A Public Private Partnership Act was passed to facilitate partial privatization of at least some of the state's eleven SOEs. The following year, IPBC was renamed Kumul Consolidated Holdings (KCH). KCH's holdings also include Kumul Petroleum Holdings Ltd (formerly National Petroleum Company of PNG), which holds the Papua New Guinea government's 16.57% equity in PNG-LNG, and Kumul Minerals Holdings (formerly Petromin Holdings Ltd), launched in 2016 to manage the country's mining assets. Improving the performance of SOEs and developing public private partnerships in Papua New Guinea is now part of an ADB Country Partnership Strategy 2016-2020. In early 2016, the Minister for Public Enterprises and State Investments announced that privatization of SOEs would be reviewed, but action is unlikely until after the 2017 election.

Meanwhile there has been an opening up to competition in the telecommunications sector, beginning with deregulation of mobile telecommunications in 2007. In 2016, state-owned wholesale telecommunication provider PNG DataCo announced agreement to partner with Indonesia's Telekomunikasi Indonesia International (Telin); and in the electricity industry, state-owned enterprise PNG Power has been directed to contract with private power suppliers.

Private enterprise

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## 10 | Welfare Regime

Within traditional societies, relationships of kin and community provided some sort of social safety net for the elderly, widowed and disabled. Today, migrants to urban centers are still likely to depend on wantok for accommodation and support – which can be a significant burden on those in low-wage-earning jobs.

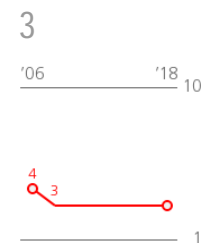
A National Provident Fund (NPF) was established by the government in 1980, with compulsory superannuation contributions for employees and employers introduced two years later. However, the fund lost over PNK 150 million in the 1990s through mismanagement, fraud and corruption, and following a lengthy commission of inquiry, was reconstructed as the National Superannuation Fund (NASFUND) in 2002. NPF chairman Jimmy Maladina was convicted of misappropriation, but the sentence was suspended and in 2016 repealed by the Supreme Court on technical grounds. In December 2016, it was reported that Maladina was contesting the 2017 national election. NASFUND investment functions are outsourced to independent service providers. For those in public sector employment, a pension scheme is provided through Nambawan Super Ltd.

However, in reality there is no state-welfare net. Studies have shown that more than 80% of the workers enrolled in the provident funds will not have accrued enough funds by retirement for a comfortable retirement.

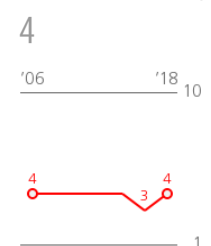
Although there are equal opportunity laws, large sections of the population face open discrimination. Women in particular are discriminated against in all strata of society. Their access to education, medical care, employment opportunities and public office are limited, and women are rarely protected from domestic abuse. It has been estimated that only about half of eligible female students actually attend high school. The national literacy rate is only about 60%. In the political arena, where women's participation is marginal, women suffer widespread discrimination and generally find it difficult to win elections. In the 2012 national elections, three female members of parliament were elected, up from only one female member of parliament in the previous election (2007).

Cultural discrimination against women in many parts of 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 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. A 2013 study by Médecins Sans Frontières found that 70% of women in Papua New Guinea will be raped or

Social safety nets



Equal opportunity



physically assaulted in their lifetime. PNG has some of the worst health indicators in the world for women. The doubling of deaths in childbirth in the last decade suggests conditions are worsening.

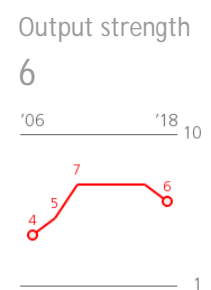
Poverty contributes to gender discrimination, since parents are more willing to spend limited resources on educating males rather than females. The undervaluing of women can be seen in tribal wars. When a woman is killed, compensation is typically \$770 versus \$1,930 for a man.

## 11 | Economic Performance

Using GDP as a measure of economic performance, Papua New Guinea has, in recent years, performed quite strongly. After a series of economic crises, and several years of negative growth in the 1990s, average annual real growth in GDP in the thirteen years to 2015 was around 3.9%. In 2014, under the impetus of the LNG project, the annual growth rate rose to 8.5% and was forecast (by ADB) to achieve a gain of over 21% – the highest in the world – in 2015. However, with the combined effects of drought (forcing the temporary closure of the Ok Tedi gold and copper mine) and declining commodity prices, growth was reduced to 6% for 2015 and 2% for 2016.

Most of this recent growth has come from the mining and petroleum sector. Using World Bank non-resource GDP figures of 0.6% growth in 2014 and 0.5% in 2015, and a (conservative) figure of 2.1% per annum growth in population, the real per capita movement in non-resource sector GDP has been negative. In 2016, there was a sharp downturn in prices for the mining sector. Declining returns from the mining and petroleum sector have directly impacted government revenue. In the expectation of increased revenues from the PNG-LNG project, the government raised expenditure levels in 2013 and 2014, but with large deficits in these two years and facing another large deficit in 2015, was forced to introduce slim 2016 and 2017 budgets, which cut spending collectively by about 20% in real terms. In 2016, government accounts and public servants' salaries and allowances were not being paid or delayed, health programs and schools not receiving budgeted funding, and superannuation provisions not being met. In April 2016, Moody's Investors Service downgraded Papua New Guinea's credit rating from B1 to B2, and Standard and Poor's had Papua New Guinea on negative watch. In August, a supplementary 2016 budget was pushed through parliament, making further cuts, though commentators have suggested that large reductions (45% in real terms) in the priority sectors of health, education and infrastructure are not credible. A planned sovereign bond issue in 2016 did not eventuate. The 2017 budget, presented in November 2016, projects a further small decline in revenue and a 3.5% cut in expenditure, which will impact on health, education, transport and law and justice.

On revised GDP figures, the budget deficits for 2013 and 2014 were, respectively, 9.5 and 8.6% of GDP; figures for 2015 and 2016 were 9.4% and 4.4%. These deficits



have resulted in higher levels of government debt. The target of 30% debt-to-GDP set in the Financial Responsibility Act was “temporarily” raised to 35% in 2014, but rose to 40.9% in 2016. IMF figures suggest that if the UBS loan (see above) and unpaid contributions to superannuation are included the public debt-to-GDP ratio is about 56%. The IMF has called for “prudent macroeconomic policies to ensure debt sustainability.”

A major reason for these deficits has been a decline in real revenue. The 2016 Mid-year Economic and Fiscal Outlook shows that, adjusted for inflation, revenue in 2016 was around the same level as in 2006. While taxes outside of mining and petroleum have grown over the decade, mining and petroleum taxes have declined by about the same amount, partly due to commodity prices and lower output level, but also as a result of tax holidays and accelerated depreciation allowances (the latter will end for PNG-LNG in 2020). Mining and petroleum taxes have declined as a percentage of GDP from around 30% in 2002 to 2012 to 16% in 2016. A Tax Review Commission was established in 2013 and reported in 2015. It has made several recommendations, including increasing the goods and services tax rate to 15%, raising the income tax threshold to PGK 15,000 and reducing company tax rates, but at the end of the review period these had not been implemented. On the expenditure side, significant increases have come from interest costs (which more than tripled between 2012 and 2016), expansion of Provincial and District Service Improvement Program (DSIP/PSIP) funding (which was cut back in 2016 but is still well above 2012 levels), the O’Neill government’s Tuition Fee Free education program and public service salaries. Other major expenditure commitments will include the cost of the 2017 national election and costs associated with hosting an APEC meeting in Port Moresby in 2018.

Total revenue in 2017 is projected to dip by around 2% to PGK 11.09 billion (\$3.5bn), with expenditure being pared back by 3.5% to PGK 12.97 billion (\$4.1bn). This will create a deficit of PGK 1.88 billion (USD\$592.2m), though the state debt to GDP ratio will remain fairly stable at 28.8%.

The employment situation got worse in 2016. While the official unemployment rate in 2016 is 2.5%, in reality the number is around 60%, as most people rely on the informal sector.

Papua New Guinea’s recent poor performance has been reflected in its failure to meet any of its Millennium Development Goals (MDGs). The Papua New Guinea government actually adopted 91 “PNG national MDG indicators,” only 40 of which corresponded to the U.N.’s 62 global indicators, and in a 2015 MDG progress report noted that its capacity to measure progress was weak. While, overall, the government failed to meet targets, however, progress was made on several fronts.

## 12 | Sustainability

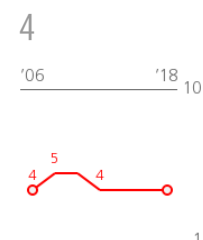
Since independence, Papua New Guinea has been heavily dependent on the minerals sector, notwithstanding recurrent disputes with landowners in mineral project areas and volatility in commodity prices. But there seems to be general agreement that the wealth generated from mining and oil and gas production has not been reinvested to achieve sustainable development. The creation of a Sovereign Wealth Fund in 2016 was a positive step in this direction, though with the decline in revenue from LNG, at end 2016 there had been no diversion of revenue into the fund. In the longer term, sustainable development will require continuing growth in the agricultural sector, which in recent years has grown at around 1% per year, well below the rate of growth in population.

Natural Resources and Environment is one of the five National Goals and Directive Principles of the constitution, and in recent times, Papua New Guinea has been a signatory to the Paris Agreement and a spokesman for the interests of Pacific Island nations threatened by climate change. But the record of successive governments on environmental issues, particularly logging, has been patchy. In 2014, the government replaced the Office of Climate Change and Environmental Sustainability in the Department of Environment and Conservation by a Conservation and Environment Protection Agency, and MTDP2 places emphasis on “strategic assets that have the potential to become the growth drivers in the future.” These include forests and biodiversity, tuna and marine resources, fresh water reserves, cultural and eco-tourism, mineral deposits, organic agriculture and clean renewable energy.

On January 1, 2016, the Climate Change (Management) Act 2016 came into operation and put in place an overarching climate change policy and legal framework. The act established the Climate Change Development Authority (CCDA), as well as outlined its functions and powers. In August 2016, parliament passed the United Nations Paris Agreement (Implementation) Act. This act gives the force of law in PNG to the agreement made at the 2015 Conference of Parties to the United Nations Framework Convention on Climate Change in Paris.

Discussion of seabed mining has been ongoing in Papua New Guinea for almost a decade, with Canadian company Nautilus Minerals seeking to undertake the world’s first seabed mining in the Bismarck Sea – and local communities and environmentalists opposing the move. In 2016, the Papua New Guinea government gave approval for the Nautilus project and bought a 15% equity in it. It also announced it was considering coal-powered energy options. On the positive side, the 2017 budget raised taxes on old-growth logging, differentiating between species.

Environmental  
policy



In general, although the PNG pays lip service to the issue of environment and sustainability, in practice, the government prioritizes economic growth over long-term environmental protection.

While there is a small number of private schools and medical facilities in Papua New Guinea, the state and the churches are the main providers of education and health services. Peter O'Neill came to power in 2012 promising free education and free health, partly in anticipation of revenue from LNG. However, with the fall in oil and gas prices the government has struggled to carry out these promises. Reports suggest that successive cuts in education have begun to undermine the O'Neill government's much celebrated Tuition Fee Free policy, as schools resort to charging fees to offset government funding which they have not received.

There are four state universities: the University of Papua New Guinea (UPNG), the major national university located in Port Moresby; the University of Technology (UniTech) in Lae; the University of Goroka, a former teacher's college located in the highlands; and the University of Natural Resources and the Environment, a former agricultural college in the Islands Region at Vudal. There are also two private universities, the Divine Word University, a Catholic university in Madang with a second campus in Wewak, and the Seventh Day Adventist University outside Port Moresby. Prime Minister O'Neill has also announced proposals for another state university in his home province of Southern Highlands. All the state universities have been heavily localized, but have suffered from persistent under-funding, disputes over management, low academic standards and corruption relating to appointments and university spending. A 2010 report on tertiary education authored by a former prime minister, Sir Rabbie Namaliu, and Australian academic Ross Garnaut, containing a number of recommendations, remains unimplemented.

In April 2016, students at UPNG called for a boycott on lectures and demanded that Prime Minister O'Neill stand down and face allegations of corruption. The boycott movement spread to the other three state universities and police were brought to the UPNG, UniTech and Goroka campuses, where confrontations between students and police occurred. Damage to buildings and vehicles through arson was estimated at around PGK 70 million. Students were sent back to their home provinces and there was talk of cancelling the academic year, but eventually classes resumed in October.

The research output of the universities is abysmal by international standards. A National Research Institute conducts social, economic, legal and educational research within its modest (donor supported) budget, but in recent years has come under fire from the government for comments critical of government policy. A private-sector-funded Institute of National Affairs (INA) also sponsors policy relevant research and comment but INA is widely seen to be promoting the views of big foreign businesses which are also their main funders.

Education policy /  
R&D

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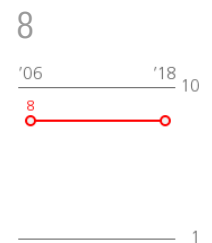
## Governance

### I. Level of Difficulty

Structural constraints on governance in PNG are rather high. Much of the population lives in mountainous or riverine situations, and roads and transport infrastructure generally are poorly developed, which means that a large part of the population lives in “remote” communities to which delivery of services is difficult and expensive. Sections of the main arterial road, the Highlands Highway, are often closed by mudslides or damage from floods, and minor roads are often impassable due to weather conditions and/or poor maintenance. Where roads and waterways are available, vehicles and boats frequently cannot be used because lack of finance or poor planning result in a lack of fuel or necessary repairs. Poor maintenance of government assets, such as accommodation and vehicles, means that public servants often resist postings to rural areas and even patrols to more remote areas. Added to this, deteriorating law and order problems, including both intergroup fighting and raskol activity, inhibit commerce and service delivery. Many provincial and district bank branches, for example, have closed due to criminal activities, and in parts of the country, coffee buyers are no longer willing to risk traveling to villages. Schools and hospitals have shut down periodically, also affected by intergroup fighting and criminal activity. The use of computers and mobile phones has done something to improve communication, but in remote areas the impact of this is limited. Several attempts have been made to address these problems by decentralization of service delivery to district and local-level governments, but often these lack the capacity (or political neutrality) to effectively deliver services.

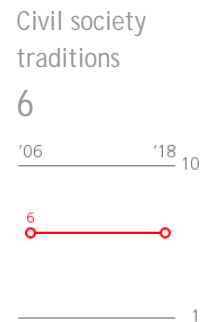
What characterizes Papua New Guinea (and makes governance difficult) is the existence of a large number of small, scattered rural communities, with no historical sense of nationhood, and a tendency to distrust one another born of centuries of intergroup fighting. A rapidly growing population, with over 36% under the age of 15, exacerbates problems of service delivery. The biggest problem facing the country is high-level corruption. Corruption is so embedded in the system that a former prime minister called it “systematic and systemic.”

Structural  
constraints

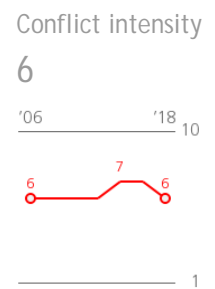




Notwithstanding the essentially rural nature of Papua New Guinean society, poor communications, low levels of literacy and a widespread cynicism about politicians, Papua New Guineans are active participants in the political system. Western-style civil society is still in its infancy, or at least its youth, in Papua New Guinea. However, there is a large and growing number of NGOs and other civil society organizations, particularly in the areas of women’s rights and environmental issues.



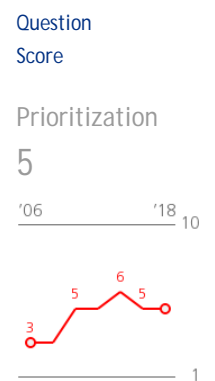
Although major social, ethnic or religious and regional cleavages are present in Papua New Guinea no group is large enough or cohesive enough to make a bid for the takeover of the state. Nevertheless, these cleavages are real and are often exploited by the political leaders to gain support and in some cases, as leverage for tribal violence. At least in the political realm, the intensity of interparty conflicts, which ran high in the early 2010s, has decreased in recent years, and most involved parties seem to be interested in a peaceful and sustainable solution to the separatist conflict between the central government and secessionist groups on Bougainville Island. The peace agreement between government and rebels, signed in 2001, has remained stable and functional. This, however, might change in the future, depending on the holding and outcome of a referendum about the island’s political status.



## II. Governance Performance

### 14 | Steering Capability

Papua New Guinea has had a long series of national plans, though arguably most have been more aspirational than effective in setting policies, and the Department of National Planning and Monitoring (DNPM) has suffered from controversies and discontinuities at senior management levels. In 2009, the government launched a 2050 Vision as a framework for future policy-making, its fundamental vision being to place Papua New Guinea in the top fifty countries in the world in terms of the Human Development Index by 2050 (this superseded Kumul 2020: Preparing Papua New Guinea for Prosperity in the 21st Century, a report launched in 1998 but quickly forgotten). The highly ambitious 2050 Vision remains as a framework within which a Development Strategic Plan 2010-2030 and five-year medium-term development strategies have been formulated. A Medium-Term Development Plan 2011-2015 (MTDP1) was developed in 2010. Following the election of the O’Neill government in 2012, and in accordance with the 2012 Alotau Accord (which identified 78 key national priorities of the incoming coalition government), DNPM formulated a National Strategy for Responsible Sustainable Development (StaRS) which “prescribes new guiding principles for development planning,” based on the National





Goals and Directive Principles of the national constitution. It focuses on sixteen 'critical activities' identified in a critical activity matrix. These are intended to "deliver expenditure and revenue reforms, and innovative implementation and procurement practices." Within this context, the O'Neill government introduced a Medium-Term Development Plan 2016-2017 (MTDP2), a two-year plan which seeks to align the planning process to the five-year political cycle – "giving the opportunity for incoming governments of the future to establish their own five-year plans." A MTDP3 will cover 2018-2022. The government also announced that it would introduce legislation for a Papua New Guinea Planning Act to establish "the broader planning context and framework" and link the MTDPs to the annual budgets. Under a National Monitoring and Evaluation Framework (NMEF), lead agencies will continue to be responsible for monitoring and reporting on the progress of their program and activities.

An interesting feature of MTDP2 is the attention it gives to population. There has been sporadic attention to Papua New Guinea's high rate of population growth and its implications for land availability and service delivery, but little action. A National Population Policy (NPP) was introduced in 2000, which targeted reductions in population growth rates from 2.7% in 1999 to 2.1% per annum by 2010 and 2% by 2020, but there was no action on the policy – which was opposed in some quarters. A 2007 review of the NPP dropped mention of targets. The review also noted a National Population Council set up under the NPP had not met for four years. The same year, a stock-take of the Medium-Term Development Strategy 2005-2010 noted that, "the government has taken a 'pro-natalist' approach in addressing population." The 2050 Vision made no mention of population. In contrast, MTDP2 describes the country's annual population growth (which it gives as 3.1%) as "too high" and identifies reduction of the country's fertility rate (3.8 births per female) as a priority "across government" policy requiring support.

In principle, planning in Papua New Guinea is a bottom up process: planning begins at council ward level, progresses to local council level and then to district level and provincial level, before becoming part of a national plan. But in fact, provincial plans are often patchy and district and lower level plans, if they exist at all, seldom provide much basis for policy implementation. Over recent years there has probably been some improvement in communications between districts and provinces, and provinces and the national government but for the most part, the linkages are weak, notwithstanding the O'Neill government's creation in 2014 of District Development Authorities (chaired by the MP who represents the district, which coincides with his/her electorate).

In general, the record of policy implementation is poor. A study undertaken by the cabinet in the 2000s revealed that less than 50% of cabinet decisions were implemented. There are several reasons for this. Ministers and even departmental officials may follow personal agendas rather than stated policy objectives. High rates of turnover in both ministers and senior public servants often make it difficult to maintain continuity in, or even collective memory of, stated policies. A lack of funding or capacity may undermine policy achievement, and conditions can change due to endogenous or exogenous factors (changes of government, pressures from donors or multilateral agencies, environmental changes, etc.). Where policy responsibilities are divided between the national government, provincial governments, districts and local-level governments, there is often some confusion over who is responsible for what, and responsibilities delegated from the center are not always adequately funded. Studies of comparative performance in service delivery by provinces and districts reveal marked differences, and the better performing provinces and districts are not necessarily those with the most resources or highest education levels.

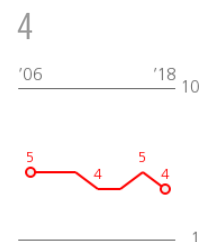
Churches, and sometimes corporations involved in resource projects in remote areas, may play a role in service delivery. A church-state partnership program has been notably successful in delivering services in the health sector, but funding for the program was halved in the 2015 to 2016 budget cuts.

In many parts of the country, aid programs (especially AusAID) deliver more service than nonexistent government delivery mechanism.

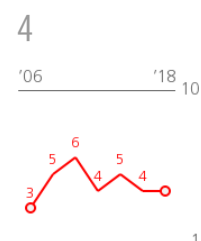
On paper, planning processes provide mechanisms for ongoing evaluation and monitoring of policy implementation and outcomes, but these are not always effectively observed, and the data needed for evaluation of performance are often unavailable. As an illustration of this, a Public Expenditure and Financial Accountability Assessment conducted by the IMF's Fiscal Affairs Department in 2015, noting "serious limitations in the availability and quality of economic and financial data," concluded that "existing institutions in PNG do not provide sufficient checks and balances to ensure effective management and control of public resources."

In recent years, especially under the O'Neill government, executive dominance and the lack of adequate parliamentary debate have meant that policy alternatives have seldom been given much attention. There is widespread perception that the O'Neill government is only interested in staying in power and devoting all of its resources toward winning the 2017 elections.

#### Implementation



#### Policy learning



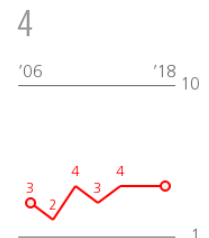
## 15 | Resource Efficiency

The efficiency with which governments make use of human, financial and organizational resources has varied over time, and varies between agencies and between national, provincial and local-level governments. An apparently increasing tendency – in spite of appropriate formal procedures – toward political appointments (referred to locally as ‘wantokism’) at national, provincial and local levels sometimes results in the appointment of personnel with limited capacity to fulfill their responsibilities. Similarly, bypassing formal procurement procedures frequently raises the costs and/or lowers the quality of goods and services obtained. Internal reporting and audits, and reports of the Auditor General, are often tardy and frequently ignored. The parliamentary public accounts committee, which in the past tabled some trenchant critiques of government departments and agencies, appears to have become moribund.

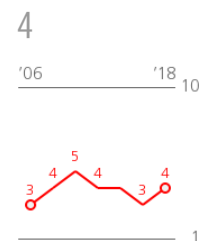
Coordination of policy implementation lies with a Central Agencies Coordinating Committee (CACC) headed by the chief secretary, and with the Department of National Planning and Monitoring, but the processes of coordination have been weak. A Consultative Implementation and Monitoring Council (CIMC), an independent organization comprising representatives of government, the private sector and civil society, administered through the Institute of National Affairs provides a mechanism for policy dialogue. However, in recent years there have been complaints that the government has sought to stifle discussion through CIMC: in 2011 it cut off funding to CIMC following civil society criticism of the government (CIMC still receives funding from AusAID).

Papua New Guinea’s constitution included several provisions intended to address corruption and conflict of interest; these included legislation such as the Public Finances (Management) Act and normal audit provisions, a Leadership Code (which requires defined leaders to submit annual returns of income and assets) and an Ombudsman Commission. Notwithstanding this, corruption, in the words of one former prime minister, has become systemic and systematic. At every national election candidates condemn corruption, but once elected many succumb to corrupt practices. Prime Minister O’Neill’s creation of Taskforce Sweep was widely seen as a positive move against corruption, and it achieved a number of high-profile convictions. However, as described above, it was disbanded, and police investigations suspended, when it sought to investigate O’Neill’s own alleged involvement in corrupt dealings. Reports from Australia suggest that the prime minister is the most corrupt PNG prime minister in recent years.

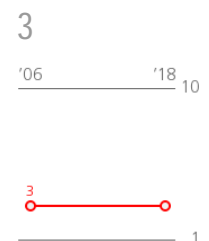
Efficient use of assets



Policy coordination



Anti-corruption policy



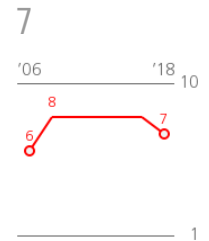
## 16 | Consensus-Building

At a general level, Papua New Guineans espouse democratic values and tend to idealize traditional social organization – the “Melanesian Way” or “Papua New Guinean Way” – as communitarian, consensual and egalitarian. However, ethnographic studies and personal observation suggest that “consensus” was frequently achieved through the dominant, male members of the community – though even in communities with hereditary leadership, people’s tolerance of authoritarian behavior was limited. In the past there has often been widespread consultation over major policy decisions (e.g., constitutional change, decentralization and electoral reform). But in recent years there has been evidence of political leaders leaning toward a more autocratic style, for example in executive dominance of the legislature (rationalized in terms of an electoral mandate), the decline of parliamentary scrutiny of policy, defiance or manipulation of the judicial system and attempts to silence government critics, as described above.

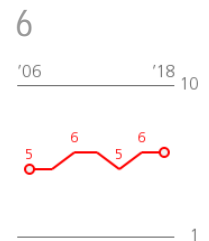
The cash market economy is a more recent concept for Papua New Guineans, and though broadly accepted, has not replaced traditional practices in relation to land rights, nor replaced the idea of constantly renegotiating agreements.

The problem of transformative reforms in PNG is not the presence or veto power of anti-democratic actors acting strategically out of conviction or self-interest against the implementation of democratic or market-economic reforms. However, reformers cannot prevent all of the powerful actors, such as tribal groups’ leaders and regional political leaders, from seeking control of the reform process, both at the policy-level and during the implementation process. It should be noted here that anti-democratic actors in PNG are mostly rent-seekers and opportunists rather than those who wish to replace liberal democracy with an authoritarian system. Furthermore, the coast-highlands divide was much more pronounced in the past. The danger for the country is not a rejection of democracy or authoritarian rule, but kleptocracy. There has been a debate among local and international observers about a possible emergent anti-democratic coup coalition in 2012 (related to Somare’s ousting during the “2012 coup”). But such worries seem exaggerated. Rather, problems related to co-optation of political spoilers have more to do with the fragmented nature of PNG politics and the state’s weak infrastructural power. Moreover, given the highly volatile nature of party politics in PNG and the vital importance of elections and political office for pork barrel politics, electoral clientelism and patronage-politics, there appears to be consensus among political elites that general elections are the only legitimate route to political office. The constant change in government and repeated shifts in cabinet members ensure that anti-democratic forces are held in check.

Consensus on goals



Anti-democratic actors



The main social cleavages in PNG are regional, language/ethnicity, clan and tribe. They play a key role in social and political life but there is no cleavage-based political party system in a strict sense as political parties are strongly personalized and volatile. Given the fragmented character of PNG's ethnically highly diverse society, it is no surprise that political leaders have only limited influence on conflict mediation.

In terms of political party platforms, there is little real difference between parties or between party candidates and independents. Virtually all candidates nominally support development, and particularly agricultural development, oppose corruption and are committed to traditional values. But in practice, development has been dominated by big mining oil and gas projects, agriculture has languished and corruption continues. Once elected, most parliamentarians seek to maximize returns to their voters and position themselves to do this most effectively. The challenges for national leaders are thus not so much ones of depolarizing ethnic, class, regional or religious cleavages as issues of meeting broad policy objectives in a system in which the horizons of both members of parliament and voters are highly localized and mostly short term. An exception to this is the ongoing peace and reconciliation process in Bougainville; to date this has been a largely successful process, though the real test will come with the referendum in 2019.

Civil society tries to make contributions to policy discussion, particularly through the private sector-funded Institute of National Affairs (which in 2016 brought together a number of influential people from outside the government and published a 110-page report, *Learning from the Past and Engaging with the Future*), Transparency International and church bodies such as the Catholic Bishops' Conference. Churches (and some resource projects) play an important role in the delivery of education and health policies. The O'Neill government has become increasingly sensitive to what it perceives as criticism of its performance and has been quick to blame "public servants with a don't-care attitude" for problems in policy implementation and service delivery. In general, civil society have quite limited influence over government policies.

The main, if not only, issue in regard to conflict reconciliation and addressing historical acts of injustice relates to the conflict between the central government and the local population of Bougainville, an island to the east of PNG with a population of about 180,000 people and rich deposits of natural resources, especially copper.

The conflict between PNG and the self-declared Bougainville Revolutionary Army from the late 1980s until the late 1990s was the longest and bloodiest internal conflict in the South Pacific that had killed something between 12,000 to 14,000 people. At the height of the conflict, between one-third and one-fourth of the population were internally displaced and lived in refugee camps controlled by the PNG Armed Forces. Negotiations brokered by New Zealand ended the fighting in 1997 and negotiations between the central government and the rebels led to the installment of the so-called Autonomous Region of Bougainville. In 2005, elections for an autonomous

Cleavage /  
conflict  
management

5

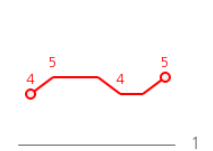
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Civil society  
participation

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Reconciliation

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government were held. The real test for reconciliation, however, will be the 2019 independence referendum. While the elected Bougainville government supports autonomy within the state of PNG and the central government vowed to respect the result of the plebiscite, key figures in the secessionist movement have refused to participate in the peace process. This might rekindle troubles after the referendum depending on how decisive the outcome would be.

## 17 | International Cooperation

Notwithstanding occasional tensions, Papua New Guinea enjoys a close relationship with its former colonial administrator, Australia. Australia is Papua New Guinea's major donor, through its bilateral development assistance program, support for multilateral agencies and occasional ad hoc assistance in dealing with natural disasters and other emergencies. Total ODA for 2016 to 2017 was budgeted at AUD 558.3 million (\$US 420 million). Papua New Guinea also receives assistance through Australia's Defense Cooperation Program. Australia is Papua New Guinea's largest trading partner.

Under Australia's Strongim Gavman Program, over thirty foreign (mostly Australian) advisers were attached to various government agencies, including the Tax Office, Customs, the Attorney General's and Auditor General's departments and Treasury, in a bid to improve levels of governance. But in 2015, Prime Minister O'Neill claimed that "foreign advisers were making PNG workers lazy and were potentially spying" and announced that their contracts would be terminated at the end of 2015, though they might be employed by the Papua New Guinea government under a new Technical Adviser Regulation.

In 1992, however, following a cut in Australia's aid package, Papua New Guinea modified its foreign policy to "Look North," and has since moved closer to Asia in its efforts to secure foreign investment and trade.

Papua New Guinea has worked closely over the years with the World Bank/IMF and the Asian Development Bank (ADB). Both the World Bank and ADB maintain offices in Port Moresby.

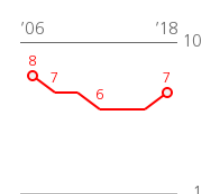
Although the government is committed to working with the international community, the international community is increasingly worried about the persistent reports of high-level corruption in the O'Neill administration.

At independence, Papua New Guinea adopted a foreign policy of "universalism," described as friend to all but racist regimes. It became a member of the United Nations and has been a significant member of other multilateral organizations.

During the evaluation period 2015 to 2017, the government of Prime Minister Peter O'Neill, although domestically under pressure, tried to promote the country's

Effective use of support

7



Credibility

5

international profile by hosting the African Caribbean and Pacific Leaders Meeting and preparatory meetings for APEC in 2018. On the other hand, and somewhat eroding the credibility of the government and its attempts to position PNG as a reliable and cooperative state, the government, fearing further critique about its economic performance, decided to suppress the publication of the IMF's new country assessment - the first government in Asia Pacific that has ever done so.

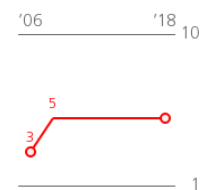
Many of PNG's international partners are worried about high-level corruption, especially reports that the prime minister himself is involved in shady deals.

Regionally, Papua New Guinea has been a prominent member of the Pacific Islands Forum (PIF), a founding member of the Melanesian Spearhead Group (MSG) and has observer status with ASEAN. The cornerstone of PNG foreign policy remains the PIF and MSG.

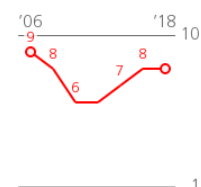
In recent years it has developed a modest aid program to assist other Pacific island countries. Trade between the island countries, however, has been limited (since most produce similar products), and subject to occasional disputes, such as Fiji's ban on imports of tinned meat from Papua New Guinea in 2015 to 2016.

In August 2016, Papua New Guinea joined Fiji in withdrawing from negotiations, ongoing since 2009, over PACER Plus, a regional free trade agreement between Australia, New Zealand and fourteen Pacific island countries. Both countries cited lack of economic benefits, with Fiji implying dissatisfaction with the dominant role played by Australia and New Zealand.

As part of Australia's so-called Pacific solution to address asylum seekers arriving by boat, the Australian government in 2001 negotiated with the Papua New Guinea government for a regional processing center for asylum seekers in Manus Province. The center was closed in 2008 but reopened in 2012 and a Regional Resettlement Arrangement (RRA) between the two countries was signed the following year. In 2016, Papua New Guinea's Supreme Court found the controversial arrangement unconstitutional. Prime Minister O'Neill announced that the center would be closed and that the Australian government would be asked to make alternative arrangements for the asylum seekers, though Papua New Guinea was prepared to accept some of the refugees. Australia, however, ruled out the possibility of accepting any of the asylum seekers or refugees from Manus. At the end of 2016, negotiations were still ongoing over the resettlement of some 800 asylum seekers still on Manus.



Regional cooperation  
8



## Strategic Outlook

In the short term, the biggest challenges facing the country are good governance issues, primarily tackling high-level corruption, restoring law and order, rebuilding public institutions and further liberalizing the economy. The key to PNG's long-term economic prosperity remains the LNG project. The money generated by the project should be spent on productive sectors such as infrastructure (rather than spending on consumables), and some of it should be kept in a sovereign wealth fund for future generations. The government should concentrate on ensuring private-sector expansion and on reforming the bureaucracy to make it more accountable and efficient. The government must improve the quality of public expenditure so that public funds spent through the national budget lead to tangible development, especially in the area of infrastructure. 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.

All these are contingent on political will. The current prime minister, Peter O'Neill, unfortunately, does not inspire confidence due to widespread reports that he is involved in many questionable business deals. The country is also gearing up for the 2017 elections. In PNG's context, this means uncontrolled government spending as the ruling party tries to "buy" the electorate. Far more serious, the O'Neill-led coalition appears to be the frontrunner to win. If O'Neill is reelected, the prospects are grim for good governance reforms.