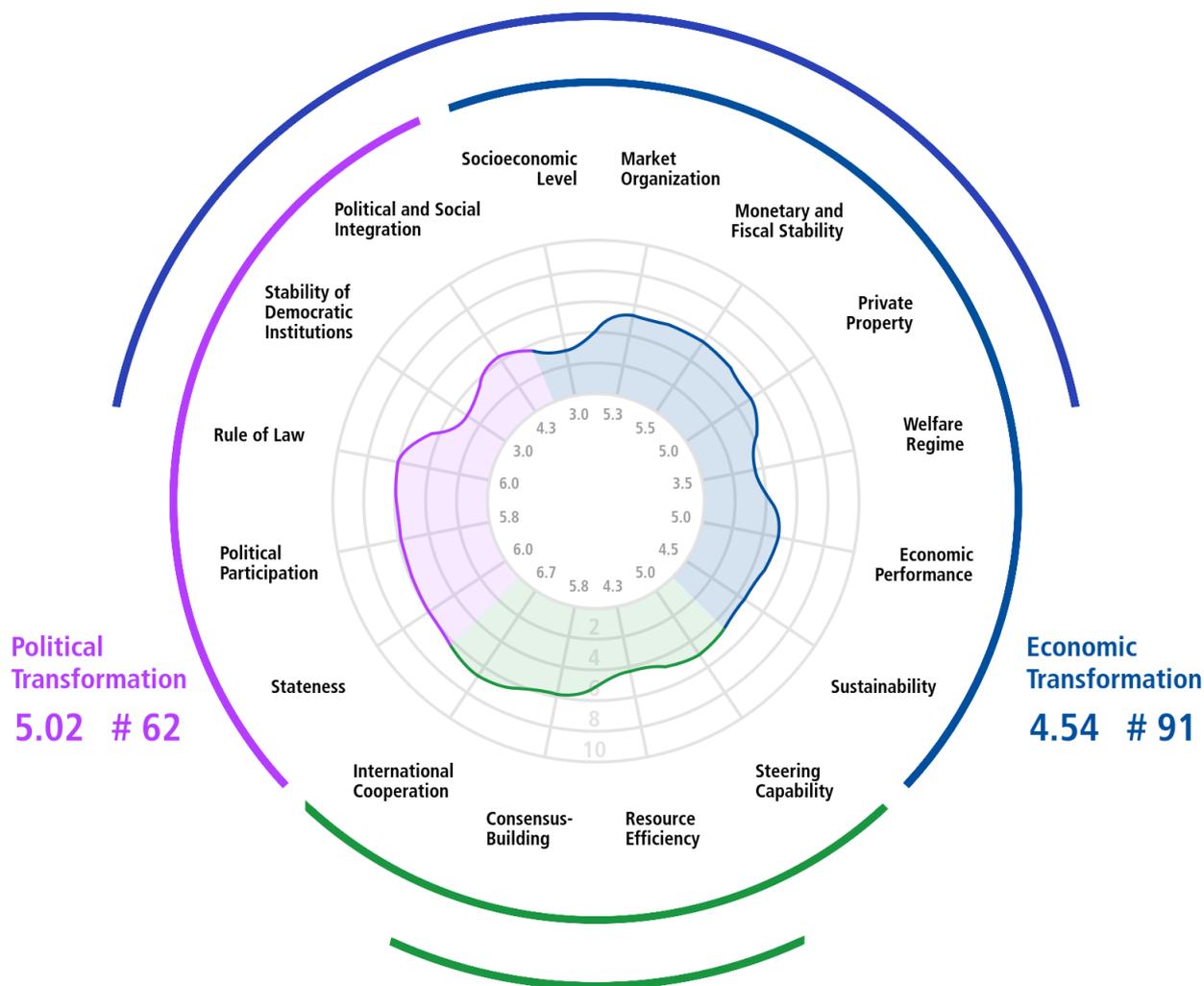


Papua New Guinea

Status Index

4.78 # 76

on 1-10 scale out of 137



Political Transformation
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on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	10.6	HDI	0.576	GDP p.c., PPP \$	4889
Pop. growth ¹	% p.a.	1.8	HDI rank of 193	160	Gini Index	41.9
Life expectancy	years	66.1	UN Education Index	0.485	Poverty ³	% 67.7
Urban population	%	13.9	Gender inequality ²	0.584	Aid per capita \$	66.5

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

The government of Papua New Guinea (PNG) has been led by Prime Minister James Marape since 2019. Initially, his government committed to a string of social and governance reforms, increasing public control over and benefits from resource projects, as well as driving stronger economic growth. These reforms included enacting laws on the right to information and safeguards for whistleblowers, as well as establishing a long-awaited Independent Anti-Corruption Commission (ICAC) and a synchronized national procurement system. Other planned reforms included money-laundering controls and the proposed Unexplained Wealth Bill.

On the economic front, the government's declared priority was to increase national wealth and ownership of its resources. The high cost of borrowing, including overseas commercial loans; growing national debt; and a shortage of foreign exchange were key issues. Following the nationalization of the Ok Tedi mine in 2013, the government sought a similar takeover of the Porgera mine, but there was no easy transition to local ownership. The arrangements agreed in 2019 for the new Papua LNG operation were also revoked, with the government indicating they would be renegotiated.

Amid frustration over the ongoing shortage of foreign exchange, which contributed to major disruptions in critical inputs, and the central bank's reticence toward a market-driven exchange rate, the central bank's governor was replaced, and an unusual arrangement was introduced with a more powerful board – no longer chaired by the governor – and separate Monetary Policy Committee in 2024.

Following Russia's invasion of Ukraine, energy prices leaped, driving up expenses but boosting revenue. In 2023/24, gold and some major agricultural crops, including coffee and cocoa, enjoyed substantially better prices, improving rural incomes. In contrast, urban households suffered from high inflation, although this was somewhat tempered by an appreciation of the kina relative to the currencies of PNG's trading partners.

The 2022 election was very poorly prepared. An estimated 50% of eligible voters were not included on the electoral roll. In addition, the election was severely compromised by procedural abuse and outbreaks of violence, extending even to areas that had previously been relatively peaceful. Disputes over the election process and results have continued to fuel conflicts in certain provinces across the Highlands Region into 2025. Violence and relative lawlessness have contributed to population displacement, with the movement of people to urban areas exacerbating housing shortages and social issues.

On the economic and fiscal front, the government continues to pursue ambitious growth and local ownership goals, as well as social and telecommunications plans, as highlighted in the Medium-Term Development Plan (2023 – 2027). In practice, given relatively low economic and employment growth rates over the past decade, weak investor interest, and a persistently high population growth rate (although details remain uncertain due to deficiencies in the 2024 National Census), the government has sought to be more business-friendly in 2024. This follows riots in January 2024, growing frustration among young people and conflicts across various parts of the country. The Porgera mine finally resumed operations in 2024, although it was disrupted by a combination of a natural disaster and further conflict. The planned Papua LNG project was deferred once again, as higher-than-quoted construction costs undermined the project's viability and necessitated the retendering of contracts.

The fiscal, debt management and foreign exchange situation has improved with support from an IMF program, which aims to bring the budget close to balance by 2027, enforce fiscal discipline, prioritize education and health care, and increase funding for law and order amid deteriorating crime and security conditions. Waiting times for foreign exchange have reportedly shortened, partly due to stronger agricultural and gold export earnings, while the kina continues to slide slowly toward its perceived market level, pushing up prices and living costs, although the National Statistical Office recorded surprisingly modest inflation for 2024.

Extractive industries dominate PNG's export earnings and, in most years, provide a substantial portion of government revenue, directly and indirectly. Company taxes and other direct payments have picked up in the 2020s as commodity prices have risen. The extractive industries make an important contribution to employment, though this is more limited in the capital-intensive and largely automated oil and gas sector. The construction phase of LNG and deep-mining projects provides a significant employment boost, lasting around four years, both directly and indirectly, for local and overseas workers, while also delivering a broader temporary economic stimulus.

History and Characteristics of Transformation

After independence in 1975, many rural communities still had little contact with government. During the late 1970s and 1980s, many schools and health care facilities were established. A unicameral parliamentary democracy based on the Westminster system was chosen, as the country was reasonably familiar with it under Australian stewardship. In addition, most laws were inherited from Australian and British legislation and case law, until PNG developed its own laws and case law.

Although there had been extensive mining during the colonial era, agricultural production dominated livelihoods and the economy. Beginning in 1984, mineral exports surpassed agriculture as the leading export earner, although agriculture remained the main contributor to GDP, and to both formal and informal sector employment. Over the following decade, law and order problems increased, reaching a new high in 1989, when an armed insurrection closed the Bougainville copper-gold mine, eventually escalating into a civil war in the province known as the Bougainville crisis. In 2001, the Bougainville conflict formally concluded with a peace agreement. As a result, an autonomous Bougainville government was established and a referendum on the question of independence was held in December 2019.

The Bougainville conflict dealt a major economic and fiscal blow to the country and the province. The 1990s saw major economic and political instability, along with weak fiscal restraint, necessitating a series of measures, including the devaluation and subsequent flotation of the kina in 1995, fiscal and balance-of-payments stabilization interventions (with the IMF and partners), and the so-called Sandline Crisis. The government of Sir Michael Somare (2002 – 2011) provided greater political and economic stability, with stronger commodity prices, relative fiscal prudence and sound monetary management. However, the subsequent terms of Peter O’Neill (2012 – 2019) and of James Marape (since 2019) were characterized by the increased dominance of the executive over the legislature.

Since 1975, all governments have been coalitions with limited policy focus, and coalition parties and independent coalition members invariably swap political allegiances on pragmatic grounds. The Organic Law on the Integrity of Political Parties and Candidates (OLIPPAC), designed to curb “party hopping,” was passed in 2001. However, it was later deemed partially unconstitutional and proved largely ineffective. Another approach to fostering loyalty has been a system of rewards and patronage, including the use of constituency development funds (widely referred to as slush funds) and crony appointments to positions in state entities. This has undermined government credibility and performance. Members of parliament control much of the funding for their constituencies through service improvement programs (District Improvement Program Funds, or DSIP for districts and Provincial Improvement Program Funds, or PSIP, for provinces). Public frustration with widespread mismanagement persists, but members of parliament’s vested interests in sustaining this largely unaccountable system have prevented meaningful reform.

Public frustration, including among many candidates, became increasingly pronounced during and after the 2022 election, particularly regarding an estimated 50% of eligible voters missing from the electoral roll. This discontent led to the establishment of a special parliamentary committee to review the election process and propose reforms to ensure better preparation and more credible elections in the future. The committee held extensive public hearings, including sessions with electoral and security officials, and tabled its report containing 70 reform recommendations in the parliament in December 2023. However, there was no parliamentary debate on the report in 2024 and administrative follow-up was limited, although the Electoral Commission held its own public consultations during 2024.

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

Militant landowner groups, tribes, clans and criminal gangs in various parts of the country (especially in the Highlands Region) regularly challenge the state's monopoly on the use of force. In January 2024, riots erupted in the National Capital District and other areas, triggered by misinformation about tax rates to be applied in 2024. Police protests and threats to withdraw services contributed to spontaneous store raids by poor and unemployed urban residents, among others. Meanwhile, a series of prolonged, very violent tribal conflicts persisted, especially in Hela and Enga provinces, resulting in significant loss of life – approximately 160 people died, although higher estimates have been quoted – and triggering further violence, including at the Porgera gold mine.

Criminal gangs operate along some highways, and in certain coastal and island provinces that had hitherto been relatively peaceful. They also operate in parts of the capital city, especially on certain public transport routes. Piracy has also been on the rise both at sea and along rivers, notably the Sepik, encouraged by the prevalence of transporting alluvial gold and the proceeds from sales. There was also violence in the vicinity of Maprik in East Sepik, allegedly in communities where leadership systems (including village courts) are dysfunctional, and increased violence and robberies in the hitherto relatively peaceful East New Britain Province, allegedly encouraged by increased mobility following the opening of the New Britain Highway link to hitherto more lawless parts of West New Britain Province. On the other hand, the level of violence and intimidation from violent gangs in Milne Bay Province seems to have diminished, with the most powerful and violent lying low after the death of much of their leadership. The lack of jobs and opportunities is a major driving force of gang violence, combined with a desire to seek revenge, including sometimes in response to police violence.

Private security firms also challenge the state's monopoly on the use of force, as they employ significantly more people than the state's security services. Authorities generally recognize them as partners in controlling crime. Some firms are owned by

Question
Score

Monopoly on the
use of force

4

'06 '26 10



1

powerful local leaders, including politicians, while a few are local subsidiaries of international security firms such as G4S and the Corps. They partially complement police operations, often with more mobility and other resources than the state has. Private security firms are supposed to be monitored by the Security Industry Authority – chaired by the police commissioner and representatives of companies and civil society – but the authority has been only partially operational in recent years.

Papua New Guineans broadly accept the nation-state’s legitimacy, though kinship ties remain dominant, and clan, language and regional identities often take precedence over national affiliation. While Bougainville’s population largely recognizes PNG’s sovereignty, the 2019 independence referendum affirmed strong aspirations for separation.

Access to citizenship remains open, with naturalization possible through residency, investment or birthright. However, dual citizens face restrictions, including exclusion from holding public office and from voting.

Despite PNG’s secular constitution, the government has moved to formally declare the country Christian. In February 2024, a constitutional amendment was tabled to enshrine Christian principles and recognize the Bible as a national symbol. The bill passed its first reading (80:10) but requires further approvals and may face constitutional challenges over protection of religious freedoms.

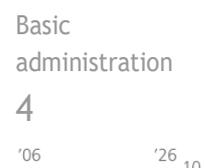
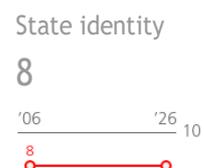
More than 90% of the population identifies as Christian, and churches play a significant role in governance and elections. Political leaders frequently attend religious events and church lobbying has influenced policy, including the 2022 repeal of the death penalty. While some churches advocate for women’s rights and action against gender-based violence, others remain silent on key social issues.

PNG’s government capacity remains weak, particularly in rural areas, and is marked by fragmented institutions and inadequate resources. The Office of the Auditor-General reports that there are 1,300 public institutions but lacks the capacity to audit them effectively.

Infrastructure remains limited, with few interprovincial roads despite ambitious Connect PNG plans under MTDP4 (2023 – 2027). Many roads are poorly maintained or impassable, restricting access to essential services.

Churches provide most health care and education services, often co-funded by the government and donors, particularly in remote areas. Western Province benefits from independent funding through the PNG Sustainable Development Program.

Decentralization has had mixed results. Districts have received more funding but face weak oversight, while local governments remain severely under-resourced. Some districts have improved planning and accountability, but replication remains a challenge.



State-owned enterprises (SOEs) struggle with inefficiency despite monopoly control. Meanwhile, resource SOEs are better funded but lack strong accountability.

The provision of critical public services – such as education, health care, and law and order – is highly uneven across the country and highly deficient outside major towns and provincial capitals. Churches provide most health care and education services (on a co-funding basis with the government and with some support from international donors), particularly in rural areas, with Western Province also benefiting from the independently funded PNG Sustainable Development Program.

2 | Political Participation

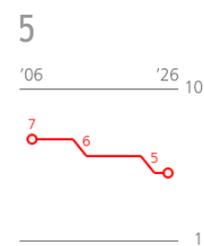
PNG's electoral integrity remains weak, with serious irregularities in the 2022 election, including voter registration failures, ballot manipulation and widespread malpractice, particularly in the Highlands Region and the National Capital District. Money politics continues to influence outcomes, with voter inducements and political patronage shaping election dynamics.

Public frustration over disenfranchisement led to the formation of a multiparty parliamentary committee, which conducted nationwide hearings and presented 70 reform recommendations in December 2023. Key proposals include strengthening the Electoral Commission, improving voter roll management and ensuring timely funding for election administration.

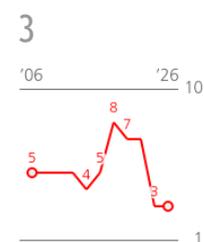
Despite these efforts, the parliament has yet to debate the report and electoral reforms remain stalled. Local-level elections, originally scheduled to coincide with national elections, have been deferred until at least 2025. Some consultations with electoral observers occurred in late 2024, but concrete action remains limited.

Democratically elected political representatives have considerable power to govern. The provincial government system introduced in 1995, which replaced directly elected provincial governments, enhanced the power of members of the national parliament. The large constituency development grants (DSIPs) and new district development authorities (DDAs), established in 2014, strengthened members of parliament's control at the district level and increased the government's capacity to use district grants as leverage for political support or compliance. The DDAs and, to some extent, the current provincial government system are widely seen as undermining the parliamentary system by making all members of parliament, in effect, managers of large and discretionary budgets, and by distracting members of parliament from the core functions of the legislature, namely, scrutinizing draft legislation and overseeing the executive, including participating in respective committees. The proliferation of ministries and government bodies – partly intended to encourage loyalty among members in the absence of other effective mechanisms (e.g., the partly discarded Organic Law on the Integrity of Political Parties and

Free and fair elections



Effective power to govern



Candidates) – has led to serious functional overlaps, discordant policies and disjointed implementation. The military in PNG has generally remained neutral, despite some seemingly political appointments of senior officers and selective recruitment over the past decade. The police have become more factionalized over time, showing allegiances to senior officers closely affiliated with specific political leaders. Likewise, the clergy lacks de facto and de jure power to undermine democratic procedures, although some churches and church leaders have considerable influence. Powerful resource interests, notably in the logging sector, have long wielded strong influence in political financing and patronage.

PNG’s constitution guarantees freedom of association and assembly, allowing political parties and organizations to form freely. While restrictions on protests eased in 2023, the January 2024 riots and attempted votes of no confidence led to tighter government and police control.

Security forces struggle to contain tribal violence in the Highlands Region, which is fueled by electoral disputes, paybacks and gang activity; some warlords are linked to politicians. The 2025 national budget increased funding for the police and defense, but enforcement remains uneven.

Student protests over defense agreements in 2023/24 were muted, likely due to government pressure and memories of police violence in 2016. The Ombudsman Commission Inquiry report on those protests was finally released in late 2024.

Public frustration over electoral failures, economic pressures and governance issues has contributed to sporadic violence, but many remain committed to due process, awaiting court rulings and parliamentary election reforms ahead of 2028.

Local protests against resource developments, including the Freida copper mine, have escalated as land grabs and logging disputes spark clashes between landowners and rogue police units acting on behalf of private companies. Despite official directives, some officers continue to support illegal operations for personal gain.

The constitution specifies that “subject to any restrictions that may be imposed on non-citizens, everyone in the country enjoys the fundamental rights and freedom of the individual,” including “freedom of conscience, of expression, of information, and of assembly and association.” Citizens, organizations and the media can express their opinions freely. However, the Cybercrime Code Act began to be applied in 2024 in cases of alleged online defamation, with people arrested, charged and imprisoned (until bailed) for alleged defamation of ministers and officials, and even a victim of domestic violence charged at the behest of her convicted perpetrator. There is concern about the new National Media Development Policy, published in February 2023, and its potential to limit freedom of media expression in PNG. The policy has drawn comparisons with Fiji’s punitive media act of 2010. The Media Council of PNG has established an independent standards committee to strengthen media standards and

Association /
assembly rights

8



1

Freedom of
expression

7



1

provide safeguards against the state extending its own reach. However, there is concern that the committee itself could run afoul of the Cybercrime Code Act if it rules in a manner contrary to the authorities.

With most TV and some radio channels consolidated under the ownership of state entities (including a public broadcaster required to maintain impartiality and a state-owned enterprise), there have been concerns about a potential erosion of freedom of expression. The ownership of the two daily newspapers remains in the hands of (overseas-owned) private businesses, one being a multinational media company, the other a logging company with diversified businesses and interests. With other outlets in the hands of church and international ICT companies, there remains some diversity in formal media outlets.

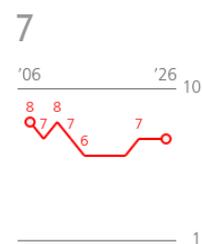
3 | Rule of Law

The separation of powers among the legislature, the executive and the judiciary is enshrined in PNG’s constitution. In practice, however, the executive government has increased its control over the legislature over the past 20 years, particularly over the past decade, by exercising greater discretion over the release of public funds within the budget or of extrabudgetary revenues under its authority, undermining the parliament’s independent functions.

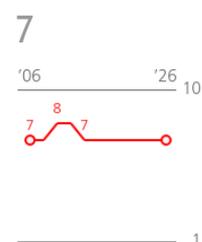
In contrast, the Supreme Court has consistently demonstrated its independent authority. The Supreme Court is the final court and hears appeals from the National Court, but it also issues opinions or advice on legislation passed or proposed, sometimes ruling against legislation on constitutional grounds, such as aspects of Organic Law on the Integrity of Political Parties and Candidates (OLIPAC). In recent years, there has been a succession of government referrals to the Supreme Court regarding questions of jurisdiction, procedures related to the 2022 election and, in 2024, the eligibility of votes of no confidence, such as overturning a decision by the speaker of the parliament that had blocked a vote from being tabled in mid-2024.

There is a severe backlog of cases dating back several years, with those awaiting trial accounting for more than one-third of prison inmates. There is wide variation in performance among judges and magistrates, with limited oversight. Additional judges and magistrates, including from overseas, are being recruited given limited local capacity. In rural areas and even in some urban communities, formal justice services remain largely inaccessible, with lawyers and facilities both inaccessible and unaffordable. There is, however, an extensive network of village courts operating across the country. Although there are firm limitations on the jurisdiction of village courts set under the constitution, they have authority over civil and criminal matters up to a certain threshold, family disputes, local-level government rules and intercommunal disputes. They also have powers of mediation and direction, modest compensation and fines, and work orders, but not detention. The importance of

Separation of powers



Independent judiciary



community-embedded village courts was recognized even before independence, and where village leadership and effective village courts are functioning, there appear to be fewer issues of violence in the community. However, in some parts of the country, traditional leadership and authority are weak, and the village court system is dysfunctional, with negative consequences. High levels of violence and lawlessness prevail in parts of PNG, with the government committed to strengthening law and justice agencies, including extensive training by the Justice Department for village court magistrates, appointing more female magistrates and providing support.

Corruption in PNG is systemic and systematic, and it has worsened significantly since the 2000s, especially in the public sector, permeating all tiers of government, including state-owned enterprises.

Over the past 15 years, many high-level corruption and abuse cases involving high-profile public figures have been abandoned because prosecutors failed to provide evidence or because excessive time had elapsed, even where extensive evidence had previously been provided, for example, to public inquiries (and therefore deemed inadmissible). There are widely held suggestions that this situation has escalated, and that some investigators and prosecutors may have been rewarded for losing evidence or not proceeding. It also seems that evidence periodically goes missing from the courts.

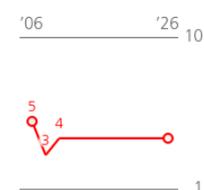
Over the past three decades, public and business perceptions indicate that corruption has become more extensive, larger in scale and more audacious. This view is supported by findings from several commissions of inquiry into finance, land and forestry matters, as well as by reports from the Ombudsman Commission and the Office of the Auditor-General. Very few corruption cases are ultimately prosecuted despite extensive evidence, partly because findings generated by such inquiries cannot be used directly as evidence in a trial.

The members of the Independent Commission Against Corruption (ICAC) were appointed in mid-2023. From 2023 to 2024, the ICAC built up staffing and capacity, conducted briefings, and accumulated a portfolio of potential corruption cases to address. The ICAC received substantial budget allocations for 2024 and 2025. However, these allocations have not been fully realized. While the ICAC is responsible for both raising awareness and tackling corruption, it acknowledges that a primary driver of corruption in PNG has been the near-total impunity that has persisted for many years.

The public is aware of corruption through the media, social media and personal experience, and through the work of organizations such as Transparency International PNG. There are high expectations for the ICAC – which will be hard to fulfill – and it is fully aware of the need to deliver results, as well as the risks of failure, tackling high-profile cases too early and cutbacks. In 2024, there was concern over a public spat between the ICAC commissioner and two deputy commissioners – now subject to a low-level inquiry – that could undermine public credibility and performance.

Prosecution of
office abuse

4



An amendment to the Proceeds of Crime Act was drafted in 2022 to address unexplained wealth among officials and was reportedly passed, but the necessary certification for the legislation to be applied may not have been issued. This legislation could serve as a powerful tool for addressing the frequently reported acquisition of properties in PNG and overseas by senior officials. However, the uncertainty surrounding the law raises questions about the government's commitment to tackling high-level corruption. There are almost certainly well-placed individuals who would feel uncomfortable with this legislation and the ability of investigators, other than tax officials, to demand justification of ownership.

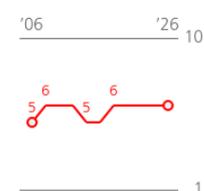
The constitution guarantees freedom from inhuman treatment and the right to protection under the law, and both are codified in law. However, civil rights are widely abused by both state and non-state actors. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are in place, but they are applied inconsistently. There is limited evidence of discrimination based on religion, ethnicity, race or political preference (although allegations are sometimes raised). In practice, however, discrimination based on gender and against persons with special needs is widespread. Nevertheless, the progressive opening of dedicated family and sexual violence units in all provinces has enhanced awareness and levels of protection.

Sorcery accusation-related violence, including killings, has been widespread in parts of PNG, with few perpetrators prosecuted, partly due to difficulties in securing evidence. Law enforcement has been involved in unlawful killings, particularly where shoot-to-kill orders are issued or rogue police units operate (illegally) at the behest of certain corporate interests such as logging companies. These units usually operate in remote locations and commit acts of violence against civilians, sometimes rightful landowners who stand up to these business interests.

The extensive private employment of police officers and large numbers of private security guards have been associated with human rights abuses at certain mining sites, urban businesses, and especially at logging camps and operations. Police brutality is widespread, although action has been taken, particularly in 2023/24, against significant numbers of officers who have been abusive.

Civil rights

6



1

4 | Stability of Democratic Institutions

The operations of democratic and other public sector institutions have been severely undermined by undue executive dominance, a lack of checks and balances, and a lack of commitment to processes. Members of parliament’s focus on large constituency development grants (DSIP) and the executive’s reluctance to allow parliamentary meetings (due to fear of no-confidence votes) undermine the legislature’s ability to oversee the executive both on the floor and in committees, as well as in its role in legislative preparation. The growing dominance of money politics has led to a vicious cycle of unrepresentative and corrupt leadership, with broader corruption influencing decision-making and undermining the equitable provision of priority public goods, including essential services.

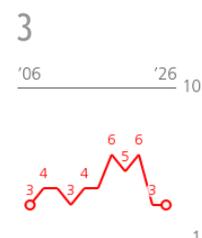
There is an independent judiciary and, despite concerns over capacity and some judgments, it is generally perceived as operating independently and providing independent judgments. The Ombudsman Commission is widely perceived as compromised, with appointments lacking the necessary capacity or impartiality and with prolonged periods of incomplete membership. Audits of the public accounts are many years overdue, as financial statements are not released to the Office of the Auditor-General in a timely manner, and the Office of the Auditor-General lacks adequate capacity and funding. The parliamentary Public Accounts Committee – which is meant to scrutinize the audit reports, and hold hearings with relevant public agencies and officials – has not met for several years and, when it did meet, it did not address the audit reports.

The ICAC is now established and fairly well staffed, and it has held consultations and reviewed potential cases. The review of the deficient 2022 election process was successfully completed by the inter-party Special Parliamentary Committee. However, the results of the review have still not been debated. The parliament has committed to sustaining the Independent Commission Against Committee. Meanwhile, the Electoral Commission, the Department to the Prime Minister and the National Executive Council (NEC, also known as the Cabinet of Papua New Guinea) have taken steps to consult further and apply the recommendations of the review, although no tangible measures have been implemented at this stage.

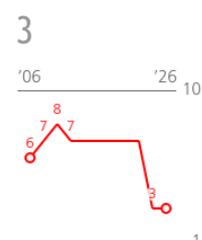
While PNG’s democratic institutions remain widely accepted, concerns over electoral integrity, leadership accountability and institutional effectiveness have grown. Political and academic circles continue to question the suitability of the unicameral Westminster system, particularly its ability to represent the people’s will and ensure accountable governance.

In December 2024, the government secured a parliamentary vote to curtail the use of votes of no confidence, a move that has since been challenged in the Supreme Court by the opposition. While some leaders advocate severely restricting or removing this mechanism, others emphasize its constitutional importance in holding governments accountable.

Performance of democratic institutions



Commitment to democratic institutions



Discussions of institutional reform have explored ways to strengthen local-level governance through improved financing and structural changes, as well as proposals to introduce a second parliamentary chamber that could include provincial governors and women’s representatives. Some have suggested integrating customary leadership systems to improve local accountability, while electoral management reforms aim to increase transparency and fairness. There has also been debate over transitioning to a presidential system, with the prime minister advocating the direct election of the head of government.

While there is no strong advocacy against democratic institutions, concerns persist about their operational capacity and effectiveness. If planned reforms are implemented, institutional legitimacy could be strengthened. However, failure to address governance inefficiencies may further erode public confidence.

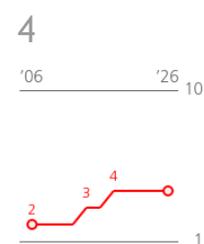
5 | Political and Social Integration

The party system includes a few major national parties, some long-established, others of recent formation; dozens of smaller, mostly geographically local entities, represented by one or two members of parliament, or perhaps none; and independents, who still make up the majority of candidates and a significant share of winning candidates. Some independents join or affiliate with the main parties after winning their seats.

Most political parties operate like political clubs or factions at the national level, with small memberships and weak support at the grassroots level. Fifty-two parties contested the 2022 national election, the highest number in any election to date. Twenty-three parties gained seats, with only three winning more than 10 out of the 118 parliamentary seats. Although the majority of the 3,619 candidates ran as independents, the vast majority of winning candidates were affiliated with a political party.

Political parties are difficult to distinguish ideologically. Some of the original parties had a distinct focus but lost it over subsequent decades. A few parties have titles that suggest ideological leanings – such as “labor” or “green” – but most parties in PNG are not founded on ideologies or belief systems. They are more often oriented around regional affinities, personalities, or specific issues or historical circumstances that galvanize and sustain support over time. Even parties with ideologically marked names are difficult to distinguish from others in terms of their manifestos or priorities in practice. The role of political parties has largely been limited to two functions: sponsorship of candidates and subsequent coalition-building. In many cases, candidates, party members and even ministers and party leaders change parties for pragmatic or opportunistic reasons.

Party system



The government – like provincial authorities – has a somewhat ambivalent attitude toward NGOs, recognizing their important role in providing health care, education, and agricultural, environmental and emergency services, while remaining cautious or occasionally hostile toward them.

The government has consistently recognized NGOs (particularly faith-based organizations) as providing a critical, complementary service-delivery system. In higher-level policy documents such as the Medium-Term Development Plan (2023 – 2027), there are extensive references to the role of CSOs and the private sector. In health care and education, NGOs and churches provide nearly half of the country’s service provision, especially in rural areas. Most of these services are co-funded by the government with some international support, while private sector-funded foundations (funded by oil and ICT firms or clubs such as Rotary) run a range of support services. There are also various domestic and international NGOs that focus on governance, human rights and other social issues, including gender-based violence and environmental issues.

In addition, several business-funded organizations promote the views and interests of the private sector in public policy, with new business partnerships established between PNG, and bodies from other countries and regions, such as Europe, the United States, China and India, joining the long-established PNG-Australia Business Council.

Several chambers and councils operate to promote the interests of women in business and agriculture, participants in micro, small and medium enterprises, and entities representing young people and persons with special needs. There are also women’s organizations and national and local NGOs focused on addressing gender-based violence and other social issues. Policy think tanks and governance organizations engage with the government and sometimes challenge or seek to hold the government accountable at national and local levels. Trade unions are legally recognized in both private businesses and the public sector, including teachers, doctors, nurses and those in public service. The unions participate with other business and government stakeholders in platforms such as the National Tripartite Council and the Minimum Wage Board hearings. Landowner groups associated with clans are also legally organized and recognized. Approximately 95% of land in PNG is held communally by clans, and recognition enables the clans to defend their rights as owners of the land and forests against the state and private companies, both local and multinational. In contrast, mineral ownership is held by the state, although recognized landowners receive a share of benefits (as well as compensation) from local resource developments.

Interest groups

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There are no recent representative surveys on public approval of democracy, though high election turnout suggests continued support for electoral democracy, particularly in urban and coastal areas. However, the 2023 election saw widespread disenfranchisement, including missing names from electoral rolls, fraudulent voting and block voting.

Students and civil society activists generally value their democratic rights, though some young voters have become disillusioned by vote rigging, thereby reducing registration efforts. Others, particularly in settlements, participated in large numbers, often incentivized by promised rewards, including instances of fraudulent voting.

Public frustration over electoral failures escalated during the 2022 elections, with extensive breaches, incomplete rolls and systemic exclusion, particularly of women in Highlands constituencies. Independent observers, including Transparency International PNG and the Australian National University, documented widespread fraud and varying levels of compliance across regions. National Capital District (NCD) voters, previously accustomed to more transparent elections, reacted strongly to the deterioration in electoral integrity.

Trust in the electoral process has declined further since 2017. In response, the parliament established the multiparty Special Committee on the Conduct of the 2022 Elections, which reported in December 2023, presenting 70 recommendations for electoral reform.

PNG's social capital continues to evolve, shaped by its vast cultural diversity and decentralized governance. Although national cohesion remains a challenge, recent years have brought increased cooperation on key social issues.

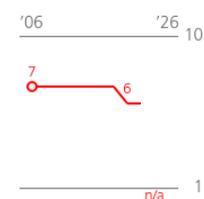
Churches, landowner groups, trade unions and NGOs play a growing role in advocacy and service delivery, though their presence remains uneven across provinces. Clan-based political fragmentation continues to hinder broader national solidarity, with regional affiliations often influencing leadership decisions. However, national events such as Independence Day and major sports competitions still foster a sense of unity.

Social movements have gained momentum, particularly in campaigns against gender-based violence, sorcery-related violence and abuse of office. Environmental activism has also strengthened as communities mobilize against deep-sea mining and other extractive projects. Efforts to increase women's participation in the workforce and political processes have drawn greater engagement.

Apart from churches and – increasingly – landowner groups, as well as a few trade unions and NGOs, there are relatively few autonomous, self-organized groups, associations and organizations operating across the country, although their numbers are growing. Such NGOs and CSOs are concentrated in a few provinces, with very few organizations located elsewhere in the country. The cultural and political fragmentation inherent in the clan system tends to resist the development of bridging

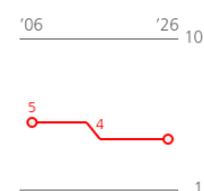
Approval of
democracy

n/a



Social capital

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social capital and complicates the development of national identity and solidarity. National leaders often collaborate or vote on a regional or parochial basis but complain about the prevalence of provincial flags at national events or national days. Nevertheless, Independence Day and major national sports events tend to bring out a sense of national cohesion.

Nevertheless, the level of cooperation around major causes has increased. This includes campaigning against gender-based and other violence, such as violence related to accusations of sorcery and violence perpetrated by officials or against segments of the community. There is also some cohesion in facing environmental threats – whether from deep-sea mining or other extractives – and in local efforts to advance women’s participation in the workforce and in political processes.

II. Economic Transformation

6 | Level of Socioeconomic Development

Demographic and economic data for PNG are notoriously inadequate. Poverty is structurally ingrained. According to the 2024 Sustainable Development Report, PNG ranks among the worst performers in the SDG index. In 2018, using the multidimensional poverty measure, the World Bank estimated that 74.5% of the population lived in poverty and ranked PNG 120th out of 122 countries, based on low incomes, poor education, and limited access to electricity and other key utilities.

Despite more rapid urbanization in recent years, PNG remains one of the world’s most rurally based societies. Access to land and natural resources largely meets subsistence needs, although PNG also has high levels of malnutrition, especially among young children, mothers and elderly people. The levels of stunting and wasting in PNG are among the highest in the world, according to the WHO. In the 2023 Rural Household Survey conducted by the IFPRI with INA, 36% of children under the age of five in rural households were found to be stunted, with major variations among districts across the country. Urban poverty and malnutrition may have worsened amid rapid population growth, including major displacement from rural areas experiencing conflict; high urban food prices; and high inflation rates, affecting the National Capital District in particular (although up-to-date urban data is not currently available).

The formal sector provides about one-sixth of employment, with the majority of the working-age population securing its livelihood from subsistence production, the rural informal sector – cash crops, processing and marketing – and goods and services in the urban informal economy. Low economic growth and low formal sector job growth

Question
Score

Socioeconomic
barriers

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since 2015, particularly during the COVID-19 pandemic, have led to increased poverty in urban settlements, especially given the high cost of living in many cities and high inflation rates in recent years.

In 2022, PNG's score on the Human Development Index was 0.57, indicating a slight but steady improvement from 0.54 in 2015 and 0.46 in 2000. Life expectancy at birth in 2022 was estimated at 66 years, well below the average in the western Pacific (77 years), though up from 62 in 2002 (World Bank). (Curable) TB was recorded as the leading cause of death. Funding for health care is among the worst in the world and had been declining as a share of the budget until an increase in the 2025 budget. Access to health care services and immunization are likewise among the lowest globally (WHO). Expected years of schooling has increased to 10.4 years. On the Gender Inequality Index, PNG ranked 169th out of 191 countries, with a relatively high maternal mortality rate and a low proportion of women with any secondary education (10.8%).

Economic indicators		2021	2022	2023	2024
GDP	\$ M	26109.4	31653.2	30816.4	32538.5
GDP growth	%	-0.5	5.7	3.8	4.1
Inflation (CPI)	%	4.5	5.3	2.3	0.6
Unemployment	%	3.0	2.7	2.7	2.7
Foreign direct investment	% of GDP	-0.1	3.8	0.1	-0.6
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	3283.8	4567.4	2794.2	4767.3
Public debt	% of GDP	52.6	48.2	53.9	52.1
External debt	\$ M	19710.4	19605.4	15320.6	-
Total debt service	\$ M	4055.3	4452.7	5600.2	-

Economic indicators		2021	2022	2023	2024
Net lending/borrowing	% of GDP	-6.8	-5.3	-4.3	-
Tax revenue	% of GDP	12.1	14.8	15.9	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	0.7	0.6	0.8	-
Public health spending	% of GDP	1.2	1.5	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.3	0.3	0.3	-

Sources (as of December 2025): 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

Aside from state-owned enterprises, most large businesses are foreign-owned or majority-foreign-owned. In most industries, competition is limited, due in part to continuing state monopolies over utilities and selected services, still relatively limited market and purchasing power, and a widely dispersed domestic market. These factors are exacerbated by licensing restrictions and established market controls.

Most agricultural production and domestic marketing, apart from palm oil and tea, are undertaken by smallholders and informal sector traders, who use customary land for production. The lack of formal land titles and transferability hinders access to finance and the entry of informal sector participants into the formal market. Some significant business operations have remained informal, avoiding burdensome documentation and evading taxation. However, increased oversight and cooperation between regulatory offices seek to address this issue. Additionally, concessional taxation arrangements – for example, the small business tax for micro and small businesses, effective June 2021 – were introduced to simplify and reduce tax requirements, and support businesses transitioning into the formal sector.

There are major programs to upgrade electricity and other infrastructure and utilities across PNG, funded in partnership with development partners. Nonetheless, outside the National Capital District, electricity services have deteriorated over the past few years, due to aging infrastructure, such as cables and transformers; inadequate revenue collection by the state entity, PNG Power Ltd., from consumers, including the state; extensive illegal connections; and unsuitable supply contracts and retail

Market organization

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pricing arrangements. The combination of a state-owned power supplier with regulatory powers, until recently, restricted private investment and competition in the energy sector. With the transfer of regulatory functions to the National Energy Authority, permits are finally being issued, notably for solar power generation by households and businesses.

Tax revenue has been increased, partly to address the ongoing budget deficit. The shortage of foreign exchange since 2016 and its restricted availability to businesses under set criteria continue to constrain business and trading activities. Nonetheless, improved export earnings in recent years, balance-of-payments support from the IMF in 2024 and a gradual shift toward a market-driven exchange rate have helped increase the availability of foreign exchange. The kina has steadily depreciated against the U.S. dollar, although not against the currencies of other trading partners. Credit remains accessible for larger businesses with long-standing client engagement but is largely unavailable to smaller and agricultural businesses, particularly those using customary land, which comprises nearly 95% of PNG's land area.

The Independent Consumer and Competition Commission (ICCC) oversees markets and enforces competition, including in regulated industries – notably utilities and services provided by state-owned entities – and in markets where effective competition may not be possible. It has the power to set price ceilings on goods that have been “declared,” which includes a few staple foods and products marketed through relatively monopolistic arrangements, such as rice. In recent years, notable acquisition proposals have involved the banking, and oil and gas sectors. In 2023/24, the reviews largely concerned smaller mergers, internal corporate rearrangements and airline code-sharing arrangements.

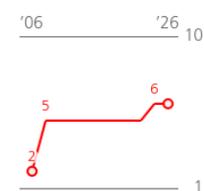
ICCC administers consumer protection provisions. It reviews the prices of selected goods and services, primarily in cases of monopoly, oligopolistic market distortion or other public interests. In 2024, it proposed an amendment to the Prices Regulation Act that would allow it to set price ceilings for a range of other products. In 2024, the ICCC proposed establishing a whistleblower capacity for cases of market distortion.

The financial sector has been heavily distorted, with a single bank – the Bank of South Pacific (BSP) – controlling more than 70% of the market. The main regulator of the financial sector is the central bank. In 2024, banking licenses were issued to three financial institutions, namely Credit Corporation, Teachers Savings and Loans, and Moniplus. The Financial Consumer Protection Bill was prepared in 2023, but has yet to be passed. The bill aims to grant the central bank greater authority over financial services, interest rates, the application of guarantees and related facilities.

Most telecommunications oversight was transferred from the ICCC to the National Information and Communications Authority (NICTA), which has been less attentive to competition issues.

Competition policy

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With a relatively small and dispersed domestic market, and relatively high production and domestic transport costs, PNG remains heavily dependent on imported manufactured goods for both the industrial and consumer markets. Likewise, most goods for export are shipped as raw materials or slightly processed. The National Trade Act 2023 provided the framework for developing a holistic and integrated trade policy and for establishing the National Trade Office (NTO) as the lead agency, which has strengthened the trade environment. Both the Medium-Term Development Plan 4, Special Economic Zone Act and the Special Economic Zone Authority (Amendment) Act emphasize greater domestic processing of products for the export and domestic markets. This can only be achieved with targeted investment and by making processing costs competitive through lower costs (e.g., for transport, utilities and labor) or through protective arrangements. The special economic zone (SEZ) legislation allows extensive subsidies and favorable tax conditions for businesses investing in designated zones across the country. The first SEZs approved include an urban development in the National Capital District, a cement plant, fisheries processing, agriculture and port facilities, with several more zones planned. However, the performance of SEZs in PNG to date has been characterized by long delays, apparent corruption and few tangible results.

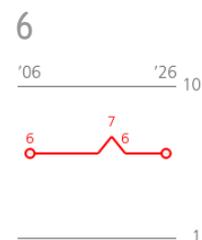
PNG has had a substantial current account and trade surplus since 2014, estimated at PGK 23.4 billion for 2024. After the COVID-19 pandemic dip, it recovered to PGK 24 billion in 2022, partly due to high LNG prices (following Russia’s invasion of Ukraine), and to an estimated PGK 30 billion in 2024, as a range of commodity prices strengthened. Imports have been constrained in part by ongoing restrictions on access to foreign exchange.

For imports, PNG’s main trading partner in 2023 was Australia, with the United States, Singapore and China trailing well behind. For exports, Japan was the largest single export market, closely followed by China, Singapore and Australia. Exclusive trade agreements are being planned and designed with some countries, including China. At the same time, PNG remains a member of the WTO and some regional trade and development partnerships, including those with Australia and the Pacific Islands Countries Trade Agreement.

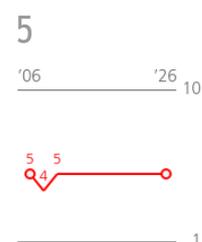
PNG’s banking sector has undergone significant changes to increase competition and financial inclusion. Until 2024, the market was dominated by four commercial banks and the Bank of South Pacific (BSP) controlled more than 70% of banking assets. In September 2024, the central bank granted licenses to CreditBank and TISA Bank, followed by National Banking Corporation (NBC) in December 2024. While these new banks aim to expand financial access, BSP’s dominance is expected to persist.

The IMF approved a 38-month credit facility in March 2023 to address balance-of-payments difficulties and foreign exchange shortages. In December 2024, the IMF extended funding for seven months because of slower-than-expected debt reduction and foreign-exchange stabilization. Foreign exchange shortages have eased following central bank reforms promoting exchange rate flexibility and liquidity management.

Liberalization of foreign trade



Banking system



The financial sector remains well capitalized, with capital adequacy ratios exceeding prudential standards as of Q2 2024. Private sector credit has increased, while non-performing loans have declined from their 2021 peak. However, concentration risks persist, with BSP holding 70% of banking assets and significant government deposits.

On foreign exchange and regulatory oversight, the central bank is transitioning to a market-driven exchange rate system, aiming for convertibility of the kina. Businesses continue to cite foreign exchange shortages as a major constraint on imports, investment and profit remittances. Foreign exchange reserves have grown since 2022, aided by high commodity prices and IMF financing, though delays in access remain.

The Financial Analysis and Supervision Unit (FASU) oversees anti-money-laundering compliance but lacks punitive enforcement powers. Cases are now referred to the ICAC for stronger enforcement against financial crimes. Despite some progress, the global anti-money-laundering watchdog, the FATF, has placed PNG on its gray list, potentially raising costs and restricting access to international financial markets.

8 | Monetary and fiscal stability

PNG's monetary policy has undergone significant reforms aimed at stabilizing exchange rates, improving liquidity management and addressing foreign exchange shortages. In early 2024, the Bank of Papua New Guinea (BPNG) transitioned to a crawl-like exchange rate arrangement, aligning with IMF-supported reforms to restore kina convertibility and enhance foreign exchange market efficiency. Monthly interventions of \$125 million have been implemented to manage foreign exchange availability, though outstanding foreign exchange orders remain substantial, averaging PGK 1.0 billion. Gross foreign reserves stood at \$3.4 billion in August 2024, reflecting interventions and external debt servicing, down from \$3.9 billion in December 2023.

Inflation moderated to 3.9% by December 2023, then fell sharply to 0.1% in June 2024, largely because of seasonal reductions in betelnut prices and lower import costs. However, core inflation remains elevated, with forecasts projecting 5% in 2024, driven by global commodity price fluctuations and ongoing exchange rate adjustments. To mitigate inflationary risks, the kina facility rate was raised from 2% in May to 4% by September 2024. Additionally, the cash reserve requirement for banks increased from 10% to 12%, absorbing excess liquidity and reinforcing monetary transmission mechanisms.

The IMF approved a 38-month credit facility in March 2023 to support PNG's transition to a market-driven exchange rate system. Following the third IMF review in December 2024, a seven-month extension was granted because of slower-than-expected progress in reducing debt and stabilizing foreign exchange. The newly

Monetary stability



created Monetary Policy Committee is expected to enhance policy continuity, though challenges remain in recruiting qualified personnel to lead monetary strategy effectively.

Private sector credit rose 14.9% in 2023, with an estimated increase of 13.8% in 2024. However, growth is forecast to weaken in 2025 without further economic stimulus measures. Reforms to the Central Banking Act have strengthened the authority of BPNG's board, establishing greater independence from the governor's role. Meanwhile, the Financial Analysis and Supervision Unit (FASU) continues to oversee anti-money-laundering compliance, though enforcement remains limited. Cases are now referred to the Independent Commission Against Corruption (ICAC) for more stringent action against financial crimes.

PNG remains on the Financial Action Task Force (FATF) gray list, a designation that could increase financial transaction costs and restrict the country's access to international financial markets. Although reforms are gradually addressing critical monetary-stability concerns, the government continues to face structural financial challenges that require sustained economic interventions and policy improvements.

PNG's fiscal position has improved, with the budget deficit estimated at 3.2% of GDP in 2024 – a reduction from 5.4% in 2022. The government forecasts a further decline to 2.2% in 2025 and aims to achieve a balanced budget or a small surplus by 2027.

Revenue growth has been driven primarily by household and corporate income taxes, while taxation from the resource sector has remained relatively stable between 2022 and 2024.

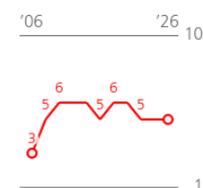
Goods and services tax collections saw a significant boost in 2023 because of stronger enforcement measures. However, although expenditure increased in both 2023 and 2024, a substantial portion of the 2024 budget was diverted from development projects to politically motivated allocations, including constituency development grants. This shift in spending patterns was likely linked to political uncertainty surrounding potential no-confidence votes.

Total debt rose to PGK 62 billion in 2024, but the debt-to-GDP ratio declined to 50.2%, down from 52.4% in 2022. In response to growing concerns over debt levels, the 2024 budget reduced the debt ceiling to 57.5%, with plans for a further decrease to 55% in 2025. The IMF support program, tied to fiscal restraint and sustainable debt management, has helped maintain budgetary discipline. Nonetheless, deviations in expenditure during 2024 suggest challenges in strictly adhering to planned fiscal allocations.

In December 2024, the IMF completed its third review of PNG's fiscal trajectory and extended funding for seven months. The review noted slower-than-expected progress in reducing debt, reflecting ongoing economic pressures. Despite these challenges, the government remains committed to fiscal consolidation, placing greater emphasis

Fiscal stability

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on improving health care, education and climate adaptation measures. While GDP growth has contributed to the decline in the debt-to-GDP ratio, long-term fiscal sustainability will ultimately depend on continued revenue expansion and more disciplined spending practices.

9 | Private Property

Domestic and foreign private entities can establish, own, operate and sell businesses, subject to restrictions on foreign businesses. The Investment Promotion Act prohibits expropriation, although the state's acquisition of the Ok Tedi mine in 2013 essentially amounted to expropriation. However, the government's emphasis on "taking back" control of business and the economy has increased risk and uncertainty for foreign investors.

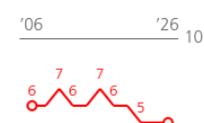
The state has a legal entitlement under the Mining Act, and the Oil and Gas Act to acquire up to 22.5% equity in oil and gas projects, and 30% in mining projects (based on sunk costs). In the early 2000s, the government stepped back from equity, but in the 2020s it is a government priority. Specific industries are subject to sectoral legislation, such as the Mining Act, the Oil and Gas Act, the Forestry Act, the Fisheries Act, various agricultural acts, and climate change acts (e.g., for carbon trading). Amendments to the Mining Act, and the Oil and Gas Act are perceived as weakening the security of companies engaged in exploration.

Most land in PNG is subject to customary ownership, with only certain urban land and small portions of rural land under state ownership. Land ownership is restricted to citizens. Commercial development by local and foreign investors takes place through state leases (including lease-leaseback arrangements on customary land). Land administration is slow, inefficient and prone to corruption. Record-keeping is poor and there are instances of multiple titles being issued, attributable to mismanagement, and corruption by officials and certain ministers, who have also acquired extensive parcels of land in their own names.

The land allocation system is supposed to operate competitively, subject to zoning conditions, taking into account need and priority. Reports indicate extensive abuses, with unadvertised properties allocated exclusively to officials, favored businesses and individuals. Addressing issues related to land administration through the court system is time-consuming, expensive and subject to delays, even in seemingly straightforward cases. Nevertheless, the court system usually delivers a fair outcome given sufficient time and resources. A new online court records system was rolled out in 2022 in an effort to improve access to court documentation and decisions and to reduce risks and delays from misplaced or missing records and documentary evidence. Additionally, a national land-use planning mechanism, which began in 2019/20 through extensive consultation, aims to reconcile different land-use priorities at both national and local levels.

Property rights

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Extensive areas of land and forest under customary ownership were seized over several years through special agricultural and business leases (SABL) until the Commission of Inquiry exposed their illegality in 2011/12, citing the lack of free and informed consent from customary landowners. However, similar malpractices persist, with land titles now bypassing the SABL process, using forest conversion authorities issued by the PNG Forest Authority, again without landowner consent.

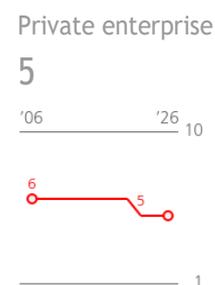
The state has a legal entitlement under the Mining Act, and Oil and Gas Act to acquire up to 22.5% equity in oil and gas projects, and 30% in mining projects (on sunk costs). Initial state equity in mining projects was offloaded in 2002 as part of a privatization effort. The 2000s were a decade of enhanced private sector investment. However, in 2007, policies shifted back toward state equity. The 2010s saw further emphasis on the state's role in resource projects, with heavy borrowing for increased equity in the country's new Papua LNG project, the nationalization of the Ok Tedi mine and the closure of the Porgera mine. A majority stake in the Porgera mine was agreed in 2023. In 2024, state entities gained a majority stake in Pasca for the offshore Pandora field. The Ok Tedi and Porgera mine scenarios disrupted the LNG project negotiations and new sector laws, heightened investor uncertainty in the resource sector, and contributed to delays in several major resource projects in the 2020s.

Apart from the extractive industries, overseas companies dominate the oil palm and logging industries, and are major players in the property market and the relatively small manufacturing sector. However, they are largely restricted to exporting and processing in other agricultural industries. Small and microenterprises, including alluvial mining, are largely reserved for PNG entrepreneurs, although foreign (largely Asian) entrepreneurs are able to sidestep restrictions on microenterprises.

With lost revenue, foreign exchange and jobs, and a downturn in investor confidence in the resources and other sectors, the government has altered its approach since 2024, favoring investor dialogue and indicating its intent to partly privatize certain state-owned enterprises as a last resort in response to continued poor performance and heavy debt.

The state and some provincial governments retain equity in various sectors, including gas, mining, power, post and telecommunications, aviation, banking, motor vehicle insurance, ports, retail and utilities. Several enterprises, including monopolies such as PNG Power, are financially strapped. Analysis by the ADB shows that they are uncompetitive and perform poorly, resulting in high costs for businesses and household users of critical services.

Private investment, including FDI, is generally encouraged. However, government policies – such as the SME policy, which limits certain business activities to local ownership – sends mixed signals. Legislative amendments – including changes to the Mining Act, Oil and Gas Act, and Public Procurement Act – have granted greater powers to the state and other local entities over resource projects, and have allocated smaller building and supply contracts, particularly those under \$3 million, to state-owned companies.



10 | Welfare Regime

Approximately 80% to 85% of the active workforce works outside the formal sector, relying on their land, gardens and marine resources for subsistence or cash sales, or engaging in other informal economic activities. Elderly people rely primarily on their capacity to work in their gardens and to trade produce. However, if incapacitated or facing natural disasters, they depend heavily on family members and communities.

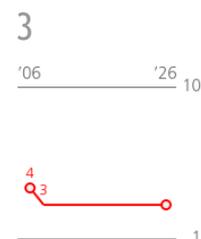
The state does not provide a nationwide social protection system and offers only basic health care services. These services are widely inaccessible, fail to meet the demands of a growing population and are largely dilapidated, with shortages of medicines, staff and facilities. The Medium-Term Development Plan (2023 – 2027) specifies a national social development policy to be developed in 2023 by a committee attached to the Department for Community Development. However, there has been no progress to date. New Ireland is the only province that provides a limited social protection scheme, funded by resource projects.

Formal sector workers send roughly 10% of their income to extended family members in their home provinces, primarily in rural areas. These remittances help cover school project fees, medicine, housing, water storage, business, and traditional exchange and other obligations. Many relatives in urban areas support or adopt rural family members, enabling them to access education. The burdens on households, particularly in towns with high living costs, can be severe. There are instances of abuse, including children being enslaved as household workers.

With most of the population claiming affiliation with a Christian denomination, churches are typically the first point of contact, after households, for support in times of crisis, including modest initiatives that support urban “street children.” Safe houses are run by NGOs (including churches) in urban areas. Much of the growing urban population inhabits settlements on state or customary land, often under informal agreements with landowners. Large-scale evictions of urban settlers occur when formal land transfers or developments take place, leaving substantial populations in need of food, shelter and support. Urban settlements accommodate both formal sector employees and informal sector participants, with some expensive permanent housing demolished during evictions. Except for small businesses, both employees and employers are required to contribute to superannuation funds. Access to these funds is available following retirement or during extended periods of unemployment.

The government provides relief during and after natural disasters, although it is highly dependent on the private sector, churches and NGOs, and development partners – notably Australia – during major disasters, and on the U.S. Coast Guard for maritime emergencies, as agreed in 2024. With unreliable population data (despite an incomplete 2024 census), limited public records and financial inclusion, relief cannot be transferred directly to households.

Social safety nets



A system of price supports for cash crops has been instituted. However, unlike in the past, when such schemes were carefully managed, these schemes are now ad hoc and ill-designed, resulting in disproportionate gains for intermediaries.

PNG continues to experience significant disparities in access to essential services, economic opportunities and living standards, particularly between urban and rural areas. A 2023 survey of rural households found that only 35% of individuals met the recommended calorie intake, and that food security varied widely across districts and socioeconomic groups.

Most Papua New Guineans live in rural areas, relying on subsistence farming and trading cash crops. However, fragmented transportation infrastructure constrains market access, limiting economic participation.

Literacy rates vary significantly by region, with 74% of heads of households literate in the New Guinea Islands Region, compared with 42% in the Highlands Region. Primary school completion rates range from 33% to 53%, while tertiary education completion remains low at 5 – 17%.

Urban students benefit from better educational facilities, leading to higher university entry rates. The National Education Plan (2020 – 2029) aims to improve literacy by providing 13 years of universal education, although high population growth and low enrollment rates pose challenges.

By 2023, student enrollment had reached 2.5 million, with church-run schools providing more than 50% of primary places and 40% of secondary places. Fee-free tuition policies have eased financial burdens, but dropout rates remain high due to costs, accessibility and limited school places.

Women account for 47.8% of PNG's formal labor force but are concentrated in lower-paid positions. Senior leadership roles remain male-dominated, though private sector representation has improved.

Maternity leave is legally mandated but unpaid, except in the public sector, which offers paid leave. The informal economy offers flexible work opportunities, but working conditions remain poor.

Women's political representation remains very low, with just three women elected to the 113-seat parliament in 2022. Bougainville's Autonomous Regional Constitution reserves seats for women, fostering greater participation by women in governance.

Individuals with special needs face barriers to education and employment due to a lack of specialized institutions and inadequate urban infrastructure limiting accessibility. Despite efforts to improve inclusion, formal employment opportunities remain scarce.

Equal opportunity

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11 | Economic Performance

The IMF estimated GDP growth at 2.9% in 2023 without the restoration of the Porgera mine.

Treasury recorded real GDP growth of 3% in 2023 and forecast 4.9% for 2024, with total non-mining growth stronger at 4.7% in 2023 and forecast at 4.5% for 2024. Mining was forecast to contribute 1% to 2024 growth, with agriculture at 0.6%, and oil and gas, wholesale, and retail each at 0.5%. Oil and gas contracted 3% in 2023, but was forecast to grow 2.7% in 2024, while mining posted modest growth of 2.8% in 2023 but was forecast to expand 12.7% in 2024 with the restoration of the Porgera mine and strong gold prices. The higher forecast for 2023 did not materialize, with communications the standout that year. Operations at the Porgera mine were severely disrupted by a major landslide and associated conflict in 2024, which resulted in workers being laid off for a period. The start of the year was disrupted by looting in several areas, including the capital city, which targeted retail businesses and hurt business sentiment. High prices for some commodities, including gold, cocoa and coffee, contributed to growth despite weak coffee production.

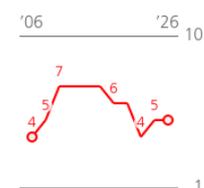
The National Statistical Office recorded a headline inflation rate of 3.9% in 2023, with BPNG forecasting 5%. The IMF estimated 5.3% for 2022, 2.3% for 2023 and forecast 4.4% for 2024.

PNG continues to run a strong current account surplus, estimated at PGK 19.6 billion for 2023 and forecast at PGK 23.4 billion for 2024. The surplus reached almost PGK 50 billion in 2022 and exceeded \$4 billion in 2023, supported by high prices for exported LNG, slipping to \$3.969 billion in 2024 due to a weaker kina against the U.S. dollar.

The current account surplus is forecast at 18.8% of GDP for 2024, primarily driven by traded goods and far exceeding the deficit on services. Exports rose to PGK 49.4 billion in 2023 and are forecast at PGK 57.5 billion for 2024, reflecting stronger commodity prices, resumption of Porgera operations and a weaker kina. Imports are forecast to rise from PGK 12.4 billion in 2020 to PGK 20.6 billion in 2024, partly reflecting the weaker kina and persistent foreign exchange shortages, which restrained import volumes between 2023 and 2024. The services balance over the same period recorded a deficit of PGK 5.5 billion in 2020, rising to a forecasted PGK 7.5 billion for 2024. Overall, despite a strong current account balance, and a positive combined current and capital account surplus, the balance of payments, which had been either in surplus or balanced over the past decade, was forecast to record a deficit in 2024 due largely to a substantial financial account deficit, including debt servicing obligations.

Output strength

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Foreign exchange reserves declined in 2024, with BPNG reportedly providing \$125 million a month to ensure the availability of foreign exchange while allowing the kina to adjust gradually toward a market value.

12 | Sustainability

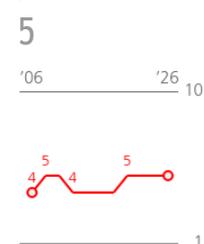
The constitution stipulates that the country’s “natural resources and environment (are) to be conserved and used for the collective benefit of us all, and replenished for the benefit of future generations.” The country has introduced a wide range of policies, laws and strategies that emphasize sustainability, conservation and emissions control, including the Environment Act, the Protected Areas Act 2024, the Climate Change (Management) (Amendment) Act 2023 and the National Land Use Policy 2024. The forestry and fisheries acts and policies place significant emphasis on sustainability, and commercial fisheries harvesting requires (sustainable) management plans. PNG has also ratified numerous international treaties. The government claims to prioritize environmental sustainability, forest conservation, carbon offsetting and adherence to climate change commitments at the U.N. General Assembly.

Despite these commitments, there has been a readiness to circumvent laws and procedures for major forestry and agricultural projects, among other sectors, with little monitoring or enforcement by the respective authorities. Even carbon offset projects have been authorized without due process or oversight. The laws, regulations and guidelines for climate change and carbon emissions management are being developed by the Climate Change Development Authority with stakeholder consultation, including the umbrella civil society body, PNG Environmental Alliance. In 2024, major concern was raised over the approval of a purported PGK 4.8 billion, 300 km sealed road that would cut through PNG’s largest remaining forests, ostensibly funded from forest conversion. This appears to be the same scheme proposed in 2011, deemed by a commission of inquiry to be “deceptive and fraudulent.”

Coal exploration and extraction, deep-sea mining, and sand mining projects have been approved in recent years, despite the absence of specific policies. For example, PNG approved world’s first deep-sea mining license in 2011, although the project later encountered financial difficulties. Nevertheless, in 2024, a successor resumed operations in the Bismarck Sea, claiming to be conducting exploration work.

Management of the world’s largest tuna resource – the west-central Pacific – has improved under the regional arrangements of the Forum Fisheries Agency and the Parties to the Nauru Agreement, which include a vessel monitoring scheme. While benefits to member countries have improved in recent years, both regional demand for fish and the size of fishing fleets have grown substantially. The growth of demand in China and the Chinese fishing fleet have heightened concerns over coordination, control and sustainability, especially with checkbook diplomacy threatening the

Environmental
policy



Pacific's regional resource management system. Security arrangements between some Pacific states, and China, the United States and Australia have fueled uncertainty and occasional discord. For example, PNG's 2023 agreement with the United States includes provisions for the U.S. Coast Guard to support fisheries, marine management and emergency response.

The National Education Plan (2020 – 2029) provides for a preparatory school grade at age six and a total of 13 years of schooling through to grade 12. Although school places increased from about 500,000 in 1993 to about 2.5 million in 2023, students are progressively squeezed out of education because of costs, inaccessibility of schools and lack of places. Fee-free tuition was introduced – initially for primary and later for secondary education – but the government grant does not cover all costs, and parents must contribute to supplementary charges, books, uniforms, transport and supplementary food.

The 2023 National Education Department Report shows that, of all school entrants, 36% (about 860,000 students) entered at the elementary level, 48% (nearly 1.2 million) at the primary level and only 10% (just over 240,000) at the secondary level. About 31,000 12th-grade students applied for tertiary education in 2025. However, only 15,000 places were reserved for school leavers, of which 5,500 students received scholarships to help cover fees and expenses, leaving about 16,000 without access to tertiary education. An additional 8,400 places were allocated to non-school leavers. The largest number of tertiary places were in business and management programs, followed by teaching and TVET courses. There are substantial differences in intake and retention rates between provinces. Female participation in education has improved since 2000, with girls now accounting for around 48% of elementary school students. However, retention rates continue to decline and the share of girls enrolled in secondary schools was 42% in 2023, according to the National Education Department.

The Inclusive Education Policy (2024 – 2028) states that all students with disabilities and additional learning needs in the PNG National Education System should have access to learning environments that promote full participation and equitable access to quality education. However, it acknowledges that significant challenges currently prevent many children from accessing education services.

According to the U.N. Human Development Report for 2023/24, the average years of schooling in 2022 was 5.7 years for boys and 4.2 for girls. Only 37.5% of men aged 25 and over have received some form of secondary education, compared with 26.3% of women aged 25 and over. Educational opportunities are generally worse in rural than in urban areas, though regional variations exist. The 2023 Rural Household Survey showed major regional variations in literacy rates among heads of households, ranging from an average of 74% in the sampled New Guinea Islands provinces to 42% in the Highlands provinces, which have greater seasonal climate variations. Among adults aged over 15 in seasonal Highlands provinces, 48% of sampled women and 22% of men had no schooling.

Education policy /
R&D

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Over the past 15 years, a major program has been implemented to upgrade skills and qualifications across the education sector, especially at the primary and secondary levels. STEM education has been introduced selectively, and the Higher Education Department has focused on upgrading and better aligning TVET capacity in collaboration with other government agencies, the private sector, churches and NGOs.

Governance

I. Level of Difficulty

The structural constraints on governance include historical factors such as the slow rollout of formal education services by the government in the late 1950s, which covered only a small percentage of the population for several decades. These factors also include constraints in public administration; extremely challenging mountainous, island and swampy tropical terrain; and a widely dispersed rural population. These conditions make transport, access and service provision difficult and costly. PNG lies on the Pacific Rim of Fire and is prone to earthquakes, tsunamis and volcanoes. Being in the equatorial zone, it is prone to high rainfall, although parts of the country increasingly face extended drought and related natural disasters. Many communities are accessible only by light aircraft that use hazardous, challenging airstrips. PNG suffers from extensive tropical and enteric diseases and has among the highest global rates of TB, some of which are drug-resistant, and pneumonia in children. HIV/AIDS rates are high and, while much lower than in the 1990s, there has been a resurgence, with diminished awareness. Inaccessibility, growing land use intensity, seasonal shortages and poor health care services, including deficient staffing, supplies and medications, contribute to high child and maternal mortality rates.

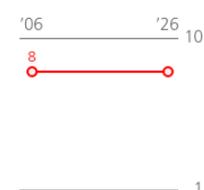
Civil society in PNG is characterized by a combination of traditional leadership and community-based organizations (CBOs), particularly clan- or church-based. Customary and contemporary systems vary considerably, including patrilineal and matrilineal societies.

Churches and church-based organizations have long played an important role in providing health care and education services, with church-run schools operating long before state schools, and still providing services in rural and urban areas, including higher education. Churches also provide rural aviation services. Rural air and shipping services have greatly diminished since the 1980s, but Lutheran shipping is slowly rebuilding its fleet. Churches also work closely with other CBOs to provide social welfare, including support for victims of gender-based and sorcery-accusation-related violence, assistance for displaced children and persons with special needs, and programs for rehabilitation and skills.

Non-church civil society interests include women's advocacy, human rights, special needs, welfare and agriculture, governance, social accountability, and the environment. Capacity and engagement vary with levels of urban development, social

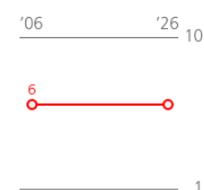
Structural
constraints

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Civil society
traditions

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cohesion, communication and need, with some provinces having well-established networks while others have few. Established traditional systems remain strong, but their sway is weakening in the face of social change, including social media.

Tribal conflicts have long been characteristic of parts of PNG. While some areas have seen a decline in such conflicts, they have become more prevalent and severe in other districts. Furthermore, although many conflicts have a tribal or ethnic dimension, some conflicts are fueled by political or electoral disputes, corruption, or crime. Some conflicts escalate through traditional commitments that draw others into a dispute or entail payback obligations. In 2024, violence intensified, particularly in Enga Province, where 49 people were killed in one incident, and in East Sepik Province, where about 22 people (mostly women and children) were killed. These incidents reflect a wider deterioration in law and order, driven by weakening traditional authority; declining government capacity and impartiality; population growth and rapid urbanization, resulting in interethnic conflict; greater access to lethal weapons, including high-powered guns and wire catapults; proliferation of cheap liquor; grievances over unequal access to economic opportunities from government allocations, alluvial gold and royalties; and the prevalence of piracy, holdups and kidnapping.

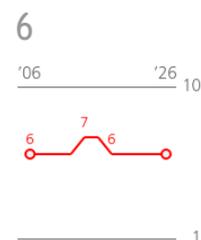
The constitution aimed to forge a nation from the country’s diverse communities. The objective was to respect cultural diversity while creating common purpose, respect and equity through a combination of nation-building initiatives and institutions, along with political and administrative decentralization. This proved inadequate to prevent the Bougainville crisis during the late 1980s and 1990s, causing major social and economic trauma to Bougainville and PNG. To meet local and regional aspirations and avoid further conflict, the national government conceded greater autonomy to Bougainville and held a referendum on independence in 2019 as part of the peace process. With Bougainville gaining autonomy, other provinces have sought the same.

II. Governance Performance

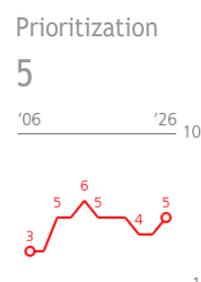
14 | Steering Capability

PNG has a well-established framework for long-term, strategic planning at the national level, and in some provinces and districts. Prioritization platforms include the MTDP4 (2023 – 2027), fiscal and debt management plans, and aligned sector plans. Long-term policies and plans have direct links to international commitments, such as the SDGs and international conventions to which PNG is party. The plans cover five-year periods that coincide with parliamentary terms. Annual budgets diverge widely from five-year plans and expenditure diverges from annual budgets,

Conflict intensity



Question Score



as in 2024. The interests of government stakeholders often take precedence over those in official plans, particularly during periods of political threat. This skews public expenditure toward selected projects, including prestige initiatives, or increased funding for constituency grants at the expense of planned programs or existing services. Major natural disasters can also seriously disrupt medium-term planning and implementation, although plans should routinely incorporate disaster preparedness. There is also inconsistency between expenditure planning, and fiscal and debt plans.

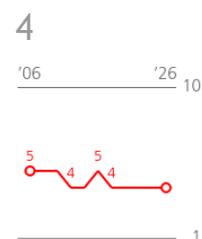
Since 2023, stronger commodity prices, the partial restoration of gold production from the Porgera mine, and support for fiscal discipline under IMF facilities and conditions have enabled some control and prioritization of fiscal deficits. However, political turbulence in 2024 led to a significant diversion of public funds away from the MTDP and established budgetary priorities. Implementation has also been constrained by the government’s own resourcing problems, continued foreign exchange shortfalls and outstanding debts or delayed payments to existing contractors, including SOEs.

Major constraints on improving project implementation, expenditure coordination and accountability include the slow rollout – and, for a while, hacking – of the Integrated Finance Management System (IFMS) and deficient government financial accountability, as shown by the severe lag in auditing public accounts. The government’s integrated communications system was implemented slowly and exposed the risks of centralized technology, though 2024 showed more progress with the government portal. The costly, cumbersome rollout of the national identity card system has handicapped both government performance, and business and economic activity, including financial inclusion, business registration and tax inclusion.

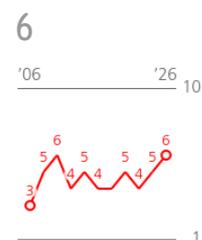
The government shows some willingness to engage in policy learning. There has been a review of SOEs. The minister commended progress on reform in early 2024, but – together with the prime minister – revised his position and acknowledged the lack of progress by the start of 2025, emphasizing the need for both new directions and better implementation. The 2023 review of the election process by a bipartisan parliamentary committee highlighted major electoral failings. It recommended extensive reforms and much earlier preparation for elections, but these recommendations have not yet been applied. A review of central banking legislation and capacity has led to two phases of reform, although PNG still risks being relegated to the “gray zone” in late 2025 by the Financial Action Task Force (FATF), unless issues are resolved promptly and satisfactorily.

The Medium-Term Development Plan 4 (MTDP4), launched in early 2023, was informed by a review of the MTDP3, significant (though not extensive) consultations and a peer review process. The review found limited compliance with MTDP3 in annual budgets and expenditure. In response, the new MTDP aims to achieve greater adherence, which requires further engagement with stakeholders and respective

Implementation



Policy learning



agencies at national and subnational levels. The government will also review the Development Cooperation Policy to better coordinate support from development partners. MTDP4 highlights the government’s recognition that the extractive industries have failed to deliver expected benefits. Experiences from the COVID-19 pandemic – combined with pressure from development partners (including the IMF), provincial leaders, the media and civil society – have led to increased investment in health care, education, and law and order, particularly in the 2025 budget. In addition, the agricultural sector has received more attention in government statements, although gaps remain in policy realism, coordination and practical implementation.

15 | Resource Efficiency

For many years, it has been hard to assess the effective use of assets because timely audits of public accounts are unavailable. Unaudited information is available in the annual budget documents and end-of-year fiscal reports, but it lacks extensive detail, including the conditions and duration of public borrowing.

Although budget deficits have been reduced in recent years and borrowing rates have generally been lower since 2020, domestic commercial borrowing became more expensive in 2024, particularly as domestic financial institutions reached their lending exposure limits to the state of PNG. The use of public expenditure remains inconsistent, with many projects lacking well-prepared plans, some initiatives serving mainly as status projects and certain funds (particularly in 2024) diverted from the approved development budget for political reasons. The substantial amount of constituency funding generally lacks proper preparation, monitoring or evaluation. Streamlining expenditure has been a major focus of some central agencies, including through use of the Medium-Term Development Plan mechanism. However, a major portion of development funding was allocated to non-priority activities in the MTDP3 and this misalignment seems prevalent again under MTDP4 (2023 – 2027).

While the state continues to borrow heavily to cover budget deficits (including debt service), state resource corporations withhold substantial revenue from consolidated revenue (and incidentally from the sovereign wealth fund, intended for stabilization, currency sanitization, diversification and investment purposes) and spend it through parallel budgets (for capital investment and, in 2024, providing foreign exchange for aviation fuel). These resource SOEs channel investment back into the same sector from which the revenue was drawn, as well as into urban real estate and status projects. This runs counter to the principle of economic and revenue diversification, and deprives the government of revenue, while necessitating further public borrowing.

Many of the major infrastructure projects prioritized by the government, including costly long-distance interprovincial roads under the “Connect PNG” program, entail major costs and largely limited returns, instead of enabling basic all-weather access

Efficient use of assets

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to communities. In addition, interprovincial links entail high construction costs over long distances, have limited immediate utilization and impose substantial additional costs to maintain operations, even though the existing infrastructure maintenance budget is already severely constrained.

Although public sector recruitment systems ostensibly include merit-based processes, in practice, public authorities continue to sideline due process, and recruit senior public sector and SOE managers through cronyism, often with senior officials and respective ministers adding or removing names from shortlists for senior appointments.

High commodity prices in 2024 boosted export earnings and revenue. In the 2023 budget, there was a shift away from recurrent expenditure. In 2024, revenue forecasts were largely met and the annual deficit fell, but on the expenditure side funding was substantially diverted away from approved budget priorities. At the start of 2023, the government increased the minimum income tax threshold from PGK 12,500 to PGK 20,000 on an interim basis to ease the tax burden on lower-income earners in the formal sector. With high energy prices, it also temporarily reduced general sales tax and fuel excise duty. In the 2024 budget, the relief measures were dropped, but the higher minimum income tax threshold was made permanent (although a glitch in its application contributed to the January 2024 riots, looting and arson). Further relief measures for lower-income earners were applied in the 2024 and 2025 budgets, related to school subsidies and goods and services tax (GST) concessions on essential items.

Debt management has become more transparent and systematic, in line with medium-term fiscal and debt management strategies, and in cooperation with the IMF. The rollout of IFMS across provinces and institutions has been slow, costly and vulnerable to hacking, and has depended on reliable power and telecommunications. Telecommunications has improved, with investment by mobile phone companies and by Dataco, the monopoly SOE wholesale cable network provider. The Digital Government Plan (2023 – 2027) incorporates the National Digital Platform, launched in 2024, to coordinate government services and data sharing, and reduce duplication. Further amendments are planned for the National Procurement Act, as procurement remains cumbersome and constrained by limited implementation capacity, leading to extended delays.

Policy in PNG is determined by the NEC, which comprises the prime minister and 37 cabinet ministers (since June 2024), drawn from 111 members of parliament, 21 of whom are provincial governors. The number of ministers has grown over the years. In practice, this encourages poor policy coordination and duplication of responsibilities, including subnational government and multiple regulatory authorities, some with substantial autonomy.

Mechanisms for coordination are weak in practice. The prime minister holds considerable authority in the cabinet, and uses his powers of appointment and leverage over constituency funds to sustain authority and allegiance.

The country has approximately 1,400 government institutions, most of which are underperforming and have little cohesion, overstressing the oversight capacity of the Office of the Auditor-General. Most SOEs, including struggling public utilities that previously reported to the government, now report through their respective boards to Kumul Consolidated Holdings, which reports to the state enterprise minister and in turn to the cabinet. SOEs that hold equity directly or indirectly in resource projects (Kumul Petroleum and Kumul Minerals) and derive major revenue from dividends and the sale of hydrocarbons and minerals report to the prime minister, who holds their shares. While previously income flowed directly to consolidated revenue, it is now largely retained by these entities, which operate major parallel (and rather unaccountable) budgets, with the treasurer negotiating annually to secure a portion for consolidated revenue. To reduce the level of parallel budgeting by regulatory authorities, some of which (notably the National Fisheries Authority) collect substantial revenue from license fees and land rent, the treasurer introduced the Non-Tax Revenue Administration Act to divert income to consolidated revenue, replacing a prior attempt in 2017 that was circumvented.

Corruption is “systematic and systemic,” as former Prime Minister Sir Mekere Morauta stated in 2001. Despite institutions established under the constitution to prevent and control abuse of public office – including the police; the Ombudsman Commission; the Office of the Auditor-General; internal executive mechanisms, such as the financial inspectors; the parliament; the judiciary; and a free press – corruption has become increasingly prevalent at both national and subnational levels, harming the delivery of public goods and services, as well as the economy and livelihoods.

The Organic Law on the Independent Commission Against Corruption (OLICAC) was passed in 2020 and the ICAC was established in 2023, when three overseas commissioners were appointed. In 2024, the ICAC was given a substantial budget, almost twice that of the struggling Office of the Auditor-General, although well below what it had sought. With senior staff lacking experience and most staff being raw recruits, with limited local networks or investigative/prosecuting experience available, 2023 and 2024 were spent establishing capacity and links, and examining potential cases.

Policy coordination

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Anti-corruption policy

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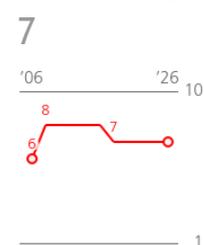
By late 2024, the ICAC had not initiated any prosecutions but had built a portfolio of cases, many referred to it by the FASU (the money-laundering watchdog) and the public. The ICAC participated in extensive awareness events during 2024, including work with the CIMC on budget awareness. A concerning issue in 2024 was a public dispute over respective powers between the commissioner and two deputies. A committee was set up by the government to examine the issues. The Anti-Money-Laundering and Counter Terrorist Financing Act, and the Criminal Code (Money-Laundering and Terrorist Financing) (Amendment) Act (incorporating some provisions formerly under the Proceeds of Crime Act) were complemented by the Proceeds of Crime Act (Amendment) Act 2015, which established a system for the declaration, investigation, reporting and confiscation of proceeds of crime. In April 2022, the Proceeds of Crime Act was further amended to incorporate provisions on unexplained wealth and powers to confiscate. The Whistleblowers Act awaits further amendments. A robust regulatory framework consistent with international standards has been set up to address corruption, money-laundering and terrorism financing. However, although the FASU, attached to the central bank, has been conducting extensive work and referring thousands of suspicious financial transactions to the fraud squad and now to the ICAC, no cases have been prosecuted to date, thereby sustaining a perception of impunity. The ICAC will be watched closely for progress on these referrals. PNG is ranked 127th with a score of 31 out of 100 in the 2024 Transparency International Corruption Perception Index, a relatively steady score and ranking over several years.

16 | Consensus-Building

The new government, formed in 2019, showed fewer autocratic tendencies than its predecessor, emphasizing open government, accountability and engagement with civil society. However, following the most flawed election in PNG's history in 2022 and several attempted votes of no confidence, the government has become more entrenched, less inclined to engage or to pursue underlying reforms, and more inclined to impose authoritarian legislation and costly projects (ostensibly for political allegiance). Meanwhile, community priorities center on safety and security, education, jobs and household income, basic access, health care, urban housing, and utilities. Despite the government's stated commitment to free speech and diverse views, concerns are rising about the curtailment of free speech, independent media and assembly through new media laws, including the use of the Cybercrime Act to impose criminal penalties for alleged defamation, and ill-defined anti-terrorism legislation.

The Medium-Term Development Plan prioritizes economic development, acknowledging the private sector but assigning a central role to government in setting priorities, managing the economy, and delivering utilities and other economic outputs – as if businesses were merely delivery mechanisms rather than commercial entities

Consensus on goals



making investment decisions based on expected returns. Political actors broadly agree on developing the country's market economy as a strategic, long-term goal, and recognize the need for a national reform agenda to strengthen economic performance and trade policy. However, in reality, their focus on control, patronage and the pursuit of business opportunities distorts the economy. Little attention is given to identifying and addressing existing business and investment constraints, which are essential for generating economic activity, jobs and revenue. During 2024, there seemed to be growing acknowledgment of the importance of MSME and large-scale investment, of the deficiencies in SOE performance in delivering utilities and other public goods, and of the need for realignment, including the potential sale or partial privatization of some SOEs. The underlying differences between the parties are limited, and determined primarily by who is in power at the time and sustaining a coalition rather than by ideology. Nevertheless, some political leaders are more aware of and engage more with economic and business realities, and the impacts of their actions.

In PNG, everyone inside or outside government states a commitment to democratic values and processes. Although some argue a “guided democracy” or a benevolent autocratic ruler might provide more consistent leadership than the current – with its frequent disruptions, votes of no confidence, coalition preservation and vote-buying they are essentially seeking more accountable leadership, whether through traditional local governance structures, variations of the current parliamentary system or a presidential-style system. In fact, anti-democratic actors in PNG are predominantly rent-seekers and opportunists, rather than people who wish to replace liberal democracy with authoritarianism.

The 2022 election illustrated that the majority of candidates and their supporters are committed to free and fair elections. However, many candidates, parties and voters engaged in bribery, physical intimidation and bribe solicitation for their own ends, sometimes with funding from anti-democratic businesses and seemingly outside interests. The subsequent bipartisan Special Parliamentary Committee on the Election, supported by two think tanks and Transparency International PNG, conducted extensive public hearings and provided 70 recommendations for reform in its December 2023 report. However, subsequent follow-up by the parliament and the executive seems limited. A few provinces and districts have made more positive strides in public consultation, planning and prioritization, and in developing more accountable political and performance monitoring mechanisms.

Implementing transformative reforms in PNG – such as restoring a directly elected subnational tier of government; creating an upper house; establishing specific women's seats; abolishing the unpopular, corrupting and unaccountable constituency grants; or implementing electoral reforms – is politically risky for incumbents. Corruption and self-interest (including monopolistic interests) and collusion with overseas commercial or strategic interests delay democratic and competitive market reforms.

Anti-democratic actors

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Reformers outside government (e.g., in NGOs, universities, certain churches and the wider community) are relatively weak and uncoordinated, although they may be gaining strength through more extensive education, greater awareness and connectivity. Reformers inside government generally lack the numerical strength, commitment, focus and cohesion to restrain powerful domestic actors, either at the policy level or during implementation.

Years of policy uncertainty; little economic or formal sector job growth; inadequate educational and training opportunities, especially for young people; urban migration; high urban living costs and associated hardship and frustration, especially among young men; widespread political and administrative corruption; growing income disparities; weakening traditional authority; and undisciplined police behavior have all fueled increased lawlessness across much of PNG.

The 2019 Bougainville referendum firmly favored independence. The Bougainville president demanded that independence be realized in 2025, but the autonomous region clearly lacks the institutional capacity for nationhood, including a revenue system beyond national government grants, so some pragmatism and considerable preparation and cooperation will be required during a transition period toward greater autonomy.

The Bougainville crisis was triggered largely by a major resource project, land loss, environmental impacts and benefit sharing. Major resource projects – including mining, oil and gas, and forestry and agricultural settlement schemes – along with natural disasters, urban drift and settlements, have been sources of tension that sometimes escalate into social discord and conflict, especially during periods of high youth unemployment. In 2023 and 2024, several provinces experienced major disruptions, with extensive loss of life. Law enforcement squads were deployed, but political commitment and resources to address underlying causes and pursue resolution were slow and insufficient. On the ground, community and church leaders widely report that some businessmen exploit and benefit from these conflicts, with involvement from certain politicians and aspiring political figures. Many community members say clans can coexist peacefully, but elections, competition for spoils and electoral abuse fuel and sustain conflict. Appeals through the Court of Disputed Returns often fail to resolve disputes, with many cases dismissed on technicalities rather than on substantive grounds. In January 2024, underlying social tensions erupted when police threatened strike action over incorrectly applied taxes, leading to widespread opportunistic looting and arson in the National Capital District and other areas, causing widespread fear and disruption.

Conflicts in the upper Highlands Region and other parts of PNG (e.g., East Sepik Province in 2024) cannot simply be framed as law-and-order problems; responses must address underlying causes – as in Bougainville – which often involve land and resource issues, environmental damage, inequity in benefit sharing, and associated social and economic issues. Treating these conflicts merely as a policing matter is

Cleavage /
conflict
management

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inadequate and potentially counterproductive if heavy-handed policing is used. Many leaders shy away from these conflicts to avoid risking or losing personal capital, while in some cases leaders are partisan or perceived as such.

Government agencies and provinces vary in their readiness to engage civil society; only a few initiate it. For example, the Climate Authority (CCDA) is now more responsive to input and feedback from the PNG Environmental Alliance on climate change policies and regulations. Generally, however, the political process is open to civil society engagement, with the Consultative and Implementation Monitoring Council (CIMC) providing an independent platform for constructive dialogue on economic, infrastructure, governance and social issues. The CIMC has facilitated coordination of family and sexual violence interventions for more than 20 years, although the Department for Community Development (DfCD) is now taking more responsibility for this role. The CIMC provides oversees the delivery of public goods, including constituency development funds (DSIP and PSIP) and education programs. Civil society engagement is conducted partly under the government-civil society partnership.

CSOs are partners in the tripartite Multi-Stakeholder Group (MSG) steering the Extractive Industries Transparency Initiative (EITI) for PNG and the Open Governance Partnership (OGP). During elections, Transparency International PNG and academics actively participate in civil society awareness and observation. Independent think tanks participated in the 2023 parliamentary review of the election and the pre-selection process for ICAC commissioners. There are provisions for civil society representation on various regulatory authorities and state-owned enterprises, including the National Procurement Commission, forest and fisheries authorities, provincial Health Authorities, audit committees, and District Development Authorities. However, in practice, these appointments are often manipulated by politicians and officials using patronage and compliance. Legislation (initially) provides for civil society nominations or selections, but these laws are often amended, giving ministers more discretion in selections before subsequent endorsement by the NEC.

Civil society and churches also play a critical partnership role in service provision. The delivery of basic services falls substantially on CSOs, with churches in particular providing most health care facilities and schools in rural areas, and many in urban areas on a cost-sharing arrangement with the government.

Engagement and funding for engagement have been partly restored since the COVID-19 pandemic but remain unreliable. However, despite enhanced engagement – including through the CIMC; the OGP National Action Plan; the EITI process; the information system PANGEA involvement in climate policies; INA reviews of plans, such as MTDP4; engagement with parliamentary committees; and Transparency International PNG’s participation in governance and anti-corruption initiatives – engagement in practice primarily involves officials rather than policymakers (e.g., ministers), resulting in limited impact on policy outcomes.

Public
consultation

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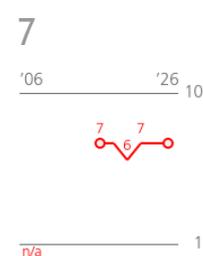
Regarding fiscal integrity, the government has long publicly committed to greater engagement during the budget preparation and oversight process, including publicly accessible budget documents (e.g., citizens’ budgets), and the auditor-general has expressed a desire to encourage civil society participation in preparing and releasing audits. However, most commitments have not amounted to much. The mid-term fiscal report, required by law by July 31, was not available until November 2024, and funding for the Office of the Auditor-General remains severely inadequate to ensure the timely finalization of annual audits. Preparation and availability of budget documentation form the bedrock of civil society dialogue and oversight.

The main case of conflict reconciliation and of addressing historical acts of injustice is the so-called Bougainville crisis. However, the dispute resolution and reconciliation process for long-running conflicts – usually involving land and resource disputes, notably in the upper Highlands provinces – remains ad hoc and fragile.

Negotiations brokered by New Zealand but driven by Bougainvilleans ended fighting in 1997, and dialogue between the government and rebels led to a peace agreement in 2001 and the establishment of the Autonomous Region of Bougainville (AROB), with its own constitution and autonomous government. A real test of reconciliation, however, was the peacefully conducted independence referendum held in 2019. With a very high turnout and independent monitors, voters voted overwhelmingly for independence. The central government vowed to respect the result of the plebiscite, though it is only advisory to the parliament and has no set schedule for implementation. The current president of the Bougainville government, a former secessionist leader, has set deadlines.

To support progress following the referendum, Sir Jerry Mateparae, a former governor general of New Zealand with practical experience of the situation in Bougainville, was appointed to moderate the process in 2024. His role is to engage with the PNG and Bougainville governments, and to gather the perspectives of Bougainvillean and other PNG stakeholders on preferred and practical ways forward.

Reconciliation

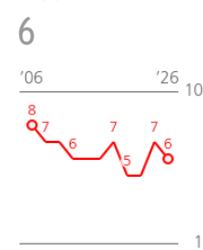


17 | International Cooperation

The southwest Pacific has become an increasingly important focus of international interest for trade, resources and geopolitical reasons. PNG – as a stepping stone between Asia and the Pacific region, and the largest, most populous and resource-rich Pacific country (outside “metropolitan powers”) – is increasingly the focus of regional and international players, while its development challenges and relative political fragility pose some threats to both its own future and the region.

This increased attention provides economic and broader development opportunities for PNG but also poses risks. In recent years, access to development assistance has increased, and sources have diversified beyond traditional mechanisms, including

Effective use of support



grants, loan financing and concessional terms during the COVID-19 pandemic. There has also been an increase in conditional financing and cooperation arrangements, such as provisions that restrict PNG from entering security or defense agreements with other parties (e.g., a sports agreement with Australia in 2024), or loans and development assistance that include confidentiality clauses, extensive use of overseas contractors and labor, and some uncompetitive terms (e.g., infrastructure loans under the Belt and Road Initiative). Partner reliability is also a major question.

PNG has been prone to signing deals with insufficient scrutiny or negotiation, creating risks and unfavorable financial obligations. In some cases, these arrangements are intended to provide the overseas lending country with economic and employment opportunities or access to natural resources. Contracts in strategic fields, including ICT and security, pose risks when they involve countries that clearly exhibit anti-democratic or autocratic inclinations.

According to World Bank data, the level of net development assistance received (in constant 2022 prices) increased steadily from \$203 million in 2002 to \$1.19 billion in 2021 during the COVID-19 pandemic, before dropping back. Official development assistance fell from 23.7% of GNI in 1975 to 2.5% in 2017, before rising to 4.8% in 2021 and slipping to 2.2% again in 2022. PNG's ODA is concentrated, with Australia providing 56% of forecast grant assistance in 2024 and 58% of a much-reduced portfolio for 2025; the next largest provided in 2024 is New Zealand with 14%, whereas in 2025 it is forecast to be the United Nations, followed by China with 10%. With the envisaged decline in grants from 2024 to 2025, loans are expected to remain constant at levels somewhat below grant funding and to be led by the ADB, followed by the World Bank. During and after the COVID-19 pandemic, Australia shifted funding into budget support, including through concessional loans. However, there was some anxiety among lenders about their leverage to ensure policy compliance.

The PNG government has sought to align funding from development partners with the government's Medium-Term Development Plan (MTDP4, 2023 – 2027), notably under the auspices of the PNG Development Cooperation Policy (2025 – 2030, still in preparation). Although development partners emphasize their alignment with the government's priorities, they apply considerable discretion in their interpretation and application, aligning with their own governments' thematic priorities and global programs. Despite MTDP4, major projects have been delayed or remain unimplemented because of changes in government, policy and programming; natural disasters; the COVID-19 pandemic; the slow rollout of new procurement rules; implementation capacity; and, especially in 2024, the seeming reassignment of counterpart funding during political uncertainty. Most donors follow PNG's procurement rules, but the National Procurement Act permits the application of donors' own regulations, as is the case with Chinese grant assistance.

PNG is generally a difficult place for investment, governance and project implementation. Visits by international leaders and high-level officials have increased. In 2023, visitors included the Indian prime minister, the presidents of Indonesia and France, most regional leaders, the secretaries of state and defense for the United States, and China's foreign minister. In 2024, there was a papal visit. The prime minister and delegations held multiple overseas meetings with government and business leaders in the United States, China, Japan and Europe during 2023 and 2024.

Australia and New Zealand have long dominated development assistance and security arrangements in the Pacific Islands, along with France for its overseas territories. The United States has been more active in the Micronesian islands, while fishing arrangements have existed with Japan, Taiwan, South Korea and the Philippines. In recent years, China's growing regional presence in resources and trade, development assistance, and political and military areas has altered the regional landscape, and boosted engagement by the United States and regional powers. After the Solomon Islands and other Pacific Island nations transferred recognition from Taiwan to China, a security agreement between China and Solomon Islands was reached, causing anxiety in Australia and New Zealand, the United States, Japan, and the region, particularly regarding concerns over potential military bases. After a hastily initiated effort by China to secure a regional economic partnership with Pacific Islands nations was collectively rejected, individual countries have signed education and broader agreements, as with Kiribati, and resource cooperation arrangements with the Cook Islands. PNG already has a police support arrangement with China, as well as security arrangements with Australia, the United States and Indonesia. It is preparing a defense agreement with Australia in 2024.

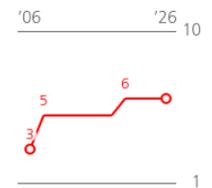
Anxiety in PNG and among smaller Pacific nations has partly stemmed from concerns about being dominated by superpowers and regional powers pursuing their own strategic interests. PNG has long been perceived as Australia's northern barrier or alternatively as a potential Trojan horse.

Suggestions that China is funding special economic zones, including fisheries and airport developments in PNG's southern provinces near Australian territory, have caused regional anxiety, even if partly geopolitical posturing. The United States declared PNG a fragile nation under its Global Fragility Act 2019, enabling closer support for security, peace and reconciliation, and wider development support to complement heightened engagement already occurring in trade, the environment and power generation. In 2023 and 2024, various new support programs were being prepared, including a peace project and a wider economic development program for the southwest Pacific, including PNG. (With the new U.S. administration in 2025, these developing programs have been largely halted).

Australia, PNG's primary development and major trading partner (along with China and Japan), most recently reshaped its engagement around a focus on offshore detention for asylum-seekers and associated leverage by PNG for infrastructure

Credibility

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support. The emphasis has shifted, with Australia engaging more actively and adjusting to an active role on climate change, an issue of major concern to Pacific Island nations. Australia provides a wide range of support in PNG, including budgetary, sectoral and commercial (e.g., telecommunications) interventions, as well as financial assistance to distressed SOEs, including civil aviation reflecting, power and banking, especially in cases where Chinese entities demonstrate undue interest.

PNG's need for budget sustainability beyond the COVID-19 pandemic resulted in increased grant and loan financing from traditional development partners, including Australia, the IMF, the World Bank, the ADB and the European Union. This came with conditions, applied relatively lightly by some development partners. Conditions imposed by the IMF for current account and related support have been somewhat firmer in FY 2023/24 but are geared toward fiscal stability; support for the government to reduce debt-to-GDP and move toward a balanced budget by 2027; a focus on education and health and on addressing climate change; and a market-driven exchange rate mechanism.

Chinese assistance, composed primarily of loan finance (until 2024), has been delivered through the Belt and Road Initiative, and other associated arrangements. This assistance has focused on energy, transport, telecommunications and data management projects. It usually comes with extensive conditions, such as the use of Chinese contractors, supervisors and employees, unless strong negotiations establish requirements for local oversight and the employment of local workers. Japan has continued funding for bridges and other infrastructure, and New Zealand has provided agricultural support. ADB continues to focus largely on road, air and sea transport infrastructure, using Chinese contractors, but has also re-engaged with health care, food and agricultural programs. World Bank projects focused on agriculture, health and nutrition, and infrastructure are ongoing, as are those focused on youth empowerment and employment. With the new Indonesian president, PNG is also cautiously pursuing greater engagement with its large neighbor and with ASEAN, while recognizing the sensitive issue of the Papua provinces and their aspirations.

The Pacific Islands Forum (PIF), based in Fiji, is the region's premier political and economic policy organization. It comprises 18 member countries, including PNG. It is part of a network of regional organizations, including the Pacific Community (SPC). SPC is a 27-member body, and the largest science- and technology-based regional institution. The main themes of the 2024 leaders' meeting in Tonga were management and protection of the climate and oceans, regional security, health, and education.

PIF works on a consensus basis among the island leaders. However, tensions invariably arise. For example, the question of who should succeed as secretary-general was eventually resolved through diplomacy by PNG and other stakeholders. Nevertheless, it occurred at a sensitive time when cohesion on regional priorities –

Regional cooperation

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such as fisheries management, deep-sea mining and security arrangements – was considered crucial. Moreover, external pressures were also perceived to distort the regional agenda, and undermine resolve on resource management and security issues. Consequently, regional powers that provide funding are often seen by smaller island states as leveraging influence over the agenda.

Within the western Pacific's Melanesian region, there is the Melanesia Spearhead Group. PNG initiated the group in 1986 in response to a perceived need for local cooperation on economic growth and related issues, and frustration that the PIF lacked focus on western Pacific priorities. The group also followed PNG and its defense force's engagement in helping to suppress a postcolonial uprising in newly independent Vanuatu.

The PIF and MSG raise issues related to Indonesia's presence and human rights in the West Papuan provinces (formerly known as Irian Jaya), including whether to allow full status for West Papuan Melanesians in the PIF or the MSG. New Zealand and some Pacific Island nations, such as Vanuatu, regularly raise human rights concerns and decolonization in West Papua, while PNG and Fiji generally take a low-key approach. Following a critical U.N. Human Rights Committee report on abuses in the Papuan provinces, the Indonesian government hosted a visit by the director general of the MSG, appearing to portray the provinces positively and to undermine prospects for a PIF mission to the provinces, which are closed to international media by the Indonesian government. Close dialogue between Indonesia, Fiji and PNG helped ensure it received little attention, but there was agreement at the August meeting on a PIF fact-finding mission before the next leaders' meeting in 2025. At the August PIF leaders' meeting in Tonga, the conflict between Indigenous and French settler populations in New Caledonia was discussed but not included in the final communique.

Following disagreements over the Solomon Islands' security agreement with China, PNG police assistance was provided through PIF arrangements in 2022, and for the 2024 national election to help sustain peace and order. The Solomon Islands is more reluctant to maintain an Australian security presence, although engagement may be more welcome since the change of government in 2023.

Strategic Outlook

PNG continues to face four key challenges. First, there is a lack of skills and employment opportunities, especially for young people. Second, government revenues are low, with taxation falling on a small segment of businesses and households. Third, the economy has long been distorted by its resource sector, leading to a cost structure that undermines broad-based economic activity. Fourth, credibility in government institutions must be restored among the public and investors. Unfortunately, the quality of governance across much of the public sector and political system has deteriorated, despite the presence of many institutions to address governance issues; these institutions have been inadequately resourced and handicapped by unsuitable appointees. Governance issues include the electoral process, which – if partially resolved before the 2027 election – could greatly enhance credibility and public confidence in the government, thereby improving broader governance standards, and economic and social performance.

In recent years, significant progress has been made in establishing institutions to improve accountability, enable whistleblowing, reduce money-laundering and address corruption, including establishing the Independent Anti-Corruption Commission (ICAC) and passing legislation on unexplained wealth. The ICAC has now largely completed its staff recruitment and assessment of potential cases, focusing on an initial selection. Getting this right over the next months will be crucial to ensuring ICAC's credibility and performance, and to PNG's capacity to break entrenched corruption, and the prevailing perception of impunity enjoyed by leaders and officials. In a first but important step, the pending Rights to Information legislation must be enacted in 2025, entailing timely provision of information, penalties for non-compliance and a shift toward public sector accountability to citizens.

PNG is a resource-rich country. However, various geographic and historical factors raise the costs of doing business and delivering services, and limit the areas of business in which PNG is able to compete effectively. In this regard, defining a sound Medium-Term Development Plan (2023 – 2027) aligned with prudent fiscal and debt management strategies is essential for effective implementation and accountability. However, current national and sectoral plans set unrealistic targets.

Poor governance and public sector delivery raise the costs of doing business, undermine potential competitiveness, and severely jeopardize business, investment and livelihood opportunities. Addressing non-performance in 2025 will require more than proposals for partial privatization; it will require a readiness to root out malpractice, despite powerful beneficiaries; address outstanding debts to private service providers and others; recover debts from government; charge consumers (e.g., power) at least a break-even rate; and refrain from signing uncompetitive supply contracts. Privatization or partial privatization, entailing competition and appropriate consumer protection, should be incorporated into reform measures. However, privatization is not a comprehensive solution and should be implemented alongside other critical interventions.

Suitable mechanisms are also required to strengthen and sustain political allegiance to parties and leadership. This is an ongoing challenge, as political parties generally lack clear or distinctive policy platforms. However, reducing the available rewards and patronage, and shifting members of parliament away from roles in major projects and financial management toward their core legislative functions would reduce the pressures and incentives for malpractice. Greater transparency and budget-tracking mechanisms (including regular audits) are required at the national and district/constituency levels, as well as within SOEs – particularly those handling resource revenues and delivering public utilities, which remain vulnerable to undue patronage and abuse. Ending the current ambiguity over investment policy would also be valuable, requiring consistency across legislation, including for business and resource sectors.

Finally, special economic zones should be approached with caution; they are not a panacea. While they may play a role under certain conditions, past experience in PNG has shown that they can become channels for corruption rather than drivers of economic development. In addition, the proliferation of multiple special economic zones risks creating fragmented and unmanageable tax and customs jurisdictions, each with distinct conditions and concessions that may attract unscrupulous rather than genuine long-term investors.