

Papua New Guinea

Status Index (Democracy: 3.0 / Market economy: 2.3)		5.3	Management Index		3.6
System of government	Parliamentary democracy		Population	5.5 Mio.	
Voter turnout	not relevant ^b		GDP p. c. (\$, PPP)	2,570	
Women in Parliament	0.91 % (2002)		Unemployment rate	n. a.	
Population growth^a	2.5 %		HDI	0.548	
Largest ethnic minority	xxxx		UN Education Index	0.57	
			Gini Index	50.9 (1996)	
<p>Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. ^{b)} Voter turnout figures are not relevant in PNG due to the large number of “ghost voters”. In the 2002 elections, it was estimated that there were more than 2 million ghost voters. In every elections since the 1990s, the number of voters was more than the population. Source: UN Human Development Report 2003.</p>					

1. Introduction

In September 2002, a new government took power in Papua New Guinea, after one of the most disputed general elections. The preceding five years have been a period of momentous change for the young nation, politically, socially and economically. On every social indicator, the country has gone backwards in the period covered by this report.

This report on the status of the country’s transformation in terms of democracy and market economy over the past five years (1998-2003) indicates that there is a total absence of achievement of goals. The country has gone backwards in many areas, best symbolised by its continuing drop in the UN Human Development Index (HDI). In 1999, Papua New Guinea was ranked 129 in the HDI, by 2002 it was ranked 133. Given the difficult political and economic conditions under which the relevant players were attempting to manage transformation, this deterioration may be regarded as part of a longer trend. One report termed Papua New Guinea as a country in “terminal decline”.

2. History and characteristics of transformation

Papua New Guinea (PNG) has always been a relatively open economy since independence from Australia in 1975. PNG's economy is dual in nature, including a small formal economy and a much larger informal economy where subsistence farming accounts for the bulk of economic activity. The formal sector provides a rather narrow employment base, consisting of workers engaged in mineral

production, a relatively small manufacturing sector, public sector employees and service industries including finance, construction, transportation and utilities. The bulk of the population is engaged in the informal sector, although migration to major city centres in the past decade has contributed to urban unemployment and related social problems.

Over the past two decades, Papua New Guinea's economic growth has been characterised by a heavy reliance on commodity exports from the mining and petroleum sectors. Despite its enclave nature, the mining and petroleum sectors have a major impact on the PNG economy through their contribution to foreign exchange and government revenue (funding around 20 per cent of government revenue). The mining and petroleum sectors account for around 60 per cent of Papua New Guinea's export revenue (compared to 25 per cent from agriculture). Over 85 per cent of Papua New Guinea's population live in the rural areas and depend upon agriculture, forestry or fishing for their livelihood. The monetised part of the agricultural and forestry sectors is generally geared towards servicing overseas markets, with coffee, palm oil, cocoa, copra and unprocessed logs the most important exports.

Politics in Papua New Guinea has been marked by two distinct features. First, no governments have lasted its full term. More governments fall through a vote of no confidence than general elections. The average life of a government is less than three years. In PNG it is not uncommon for an MP to be elected as an Independent and join half a dozen political parties before the next election. In fact most elected Members in every general elections were Independents. The constant shifting of loyalties meant that no government was safe from a vote of no-confidence (other than the grace period of 18 months when a new government is formed and 12 months before a general election). MPs regularly switch support in return for ministerial posts, perks and other financial inducements.

The second feature is the high level of corruption. Corruption reaches the very top and is the single biggest cause of the country's decline since independence. Huge sums of money has disappeared into the pockets of politicians or misspent by successive governments. Despite this, there is very little political will to fight corruption as it permeated at every level of politics and the bureaucracy.

3. Examination of criteria for democracy and market economy

3.1 Democracy

In transforming its political order, Papua New Guinea has made progress in some of the areas under evaluation. There are still transformation shortcomings in areas of good governance, political representation and the rule of law. In the area of

democratic stability, there is backsliding in some indicators, and in long run if no corrective measures are taken may threaten the entire political system.

3.1.1 Political organization

(1) *Stateness*: There is no problem with state identity in Papua New Guinea. The state has an unrestricted monopoly on power. Defining citizenship and who qualifies as a citizen is not a politically relevant issue. All citizens have the same civil rights. There is separation of church and state although the Constitution does state that Papua New Guinea is a “Christian” country. Many political parties claimed to be guided by Christian principles but in reality they have no policies and no organisational structure or capacity. The political process is secularised and freedom of religion is respected. More than 90 % of the population is Christian.

Although state identity is not an issue, the country suffers from an inefficient, corrupt civil service, serious law and order problems, and poor governance. Political corruption at the highest level of government remains a major impediment to development. There is a high degree of cynicism towards political leaders and most citizens have very low opinion of political leaders. This had lead many to conclude that Papua New Guinea is a weak state where the state is unable to implement even the most basic policy. Although the country is highly fragmented (there are an estimated 830 linguistic groups), the basic division in the country is between the Highlanders and the people from the coast.

(2) *Political participation*: There is universal suffrage, and elections are conducted on time without fail since independence. Although elections are held regularly, they cannot be described as correct. Vote buying, ballot rigging, clan voting, violence and intimidation, and cheating are widespread, especially in the Highlands region. In very election, lives are lost due to election-related violence. In the most recent 2002 elections, more than fifty lives were lost in election related disputes and carnage. Nevertheless transfer of power take place peacefully on a regular basis. One positive about the electoral process is that the military and the police has kept out of active politics.

There are no problems in asserting the constitutive rights of political organization, and Non-Governmental Organisations (NGOs) play an active role in civil society. Political and civil organizations such as NGOs and trade unions can form freely and they do. There are many NGOs. The state-run and private media are mostly free from government influence, and the concept of a free media is widely understood and respected by all major players.

Another area of concern is the low levels of political participation by women. There is still widespread political and cultural discrimination against women in

the political arena, and women generally find it hard to win elections. Since independence, there have only been four female parliamentarians and in the most recent general elections, only one woman was elected out of 109 contested seats. Discrimination against women in the political arena is mostly cultural based with conservative beliefs that men are born to lead and women should look after the family and the household. This belief is particularly strong in the Highlands region where in some remote communities women are ranked lower than pigs.

(3) *Rule of law*: Transformation deficiencies exist in checks and balances among the executive, legislative and judicial branches. Under the Westminster parliamentary system practiced in Papua New Guinea, the political executive (cabinet led by a prime minister) dominates the political process. This means that the parliament has little say in political decision-making processes. Parliament itself is extremely weak due to the high turnover rate- in every elections, more than 70 % of the incumbents lose their seats. Thus after every election, the number of novices always outnumber those with experience. Many of these novices have no real idea of how parliament works.

There is also a problem of education: many parliamentarians lack tertiary education while others are educated up to High School level. It is also not uncommon to find illiterate parliamentarians, especially from the more remote constituencies. The standard of debates, a crucial element in the Westminster-type parliament, is low, with debates usually centring on personal issues rather than substantive policy debates.

While the political executive and legislative are held in low esteem, the reverse is true for the judiciary. The judiciary is widely seen to be independent and corrupt-free. The Courts often disagree with the government and rules accordingly. Many parliamentarians and senior officials have been jailed for corruption and misadministration. Unfortunately, lacks of resources and incompetence in recent years have lead to a drop in standard among the judiciary. Political authorities' moves to manipulate the judiciary politically (i.e. politization of the nomination process) have not been successful.

There is a acute law and order problem in Papua New Guinea. The police is widely seen to be corrupt, incompetent, unwilling and unable to control the escalating law and order problems. Criminal gangs, called *raskols*, operate openly in all the major urban centres. More often than not, the raskols are armed to the same level as the police, if not better. Home-made guns are a major cottage industry in Papua New Guinea. In many surveys, the capital city of Port Moresby is ranked as one of the most dangerous cities in the world in terms of personal safety.

The biggest problem, however, remains the extensive political and bureaucratic corruption. Good governance is the key issue facing the country. Although there

are extensive laws to control corruption, as a rule, the process is slow and cumbersome. Very few senior officials and politicians are ever found guilty compared to the number of cases involving misuse of public funds.

All parliamentarians and senior officials are subject to the *Leadership Code* (Organic Law on the Duties and Responsibilities of Leadership), a law governing their conduct while in office. Breaches of the *Leadership Code* can lead to dismissal from office. Unfortunately, there is a purpose-built loophole in the Code- a person in breach of the Code can escape investigation and punishment by simply resigning. The moment a person no longer occupies the office that is subject to the Leadership Code, he or she is also immediately outside the purview of the Code. Thus many corrupt officials and politicians simply resign before they could be charged under the Code, or immediately after. Generally speaking, there is great reluctance to prosecute political leaders and other “big man” (man of influence) for fear of “payback”. This has led to suggestions of selective prosecution by the state.

3.1.2 Political patterns of behaviour and attitudes

(1) *Institutional stability*: Subject to the above reservations about the political process, rule of law and law and order problems, democratic institutions are essentially stable. Institutional inefficiency is due mainly to incompetence and corruption. All relevant political and social players accept democratic institutions and regard them as legitimate.

Problems of institutional stability occur, however, due to the fact that PNG has never had a government to serve out a full term of five years in Parliament. The crudest way to measure the success of a Member of Parliament (MP) in terms of effectiveness is by how much he or she gives back to the constituency. The reciprocal relationship between the voters and MPs rings true in most constituencies of the country. The benefits used to be tangible services such as schools, roads, and aid posts in rural areas. Unfortunately, the list of benefits today include such dubious things as plane tickets to come to the city or overseas, bride price ceremony expenses, and compensation payments for a variety of reasons.

The onus, therefore, is on the MP to be in positions in government where he or she would be able to disburse benefits to the voters. The best place to be would then be in government, in contrast to being in the opposition or backbenches. What this espouses is a gravitational pull for MPs to be in government (or the executive arm). The pull is accentuated when we come to terms with the fact that PNG, as a parliamentary democracy, has a unicameral House of Parliament.

That means that there are not many positions in the legislature that can accord positions of power to as many MPs as possible apart from the executive. The gravitational pull toward the executive is what has caused perpetual instability in government since independence. Bribery and vote buying cannot be ruled out as means that have been used to divide existing coalitions.

(2) *Political and social integration:* Political parties remains weak in Papua New Guinea. Political personalities and patronage are still more important than political parties. Political parties are seen as vehicles to achieve the personal ambitions of their leaders, or simply as a vehicle to help form a government. Political parties tend to be driven by personalities and regional or clan ties. All political parties in Papua New Guinea lack organization, political philosophy or any real public policies. This has resulted in a high level of voter volatility. A weak party system, in addition to extensive corruption, remains one of the greatest obstacles to the consolidation of civil society in Papua New Guinea.

The adoption of the Integrity Law in 2001 was the government's most obvious endeavour to try and stabilize government instability. Instability otherwise also is anchored in a very weak party system. Parties in PNG do not have a strong foundation among the populace. People cast their ballots for candidates, irrespective of party affiliation and issue orientations. If political parties in most democracies are the vehicles to carry voters' interests at least until polling day, individual candidates undertake this task in PNG. Thus, an oft-quoted maxim of PNG politics is: "Candidates do not win because they are endorsed by parties; rather parties endorse candidates who are going to win." Political parties, however, become important in Parliament precisely because they are required for coalition formation.

The Integrity Law has attempted to restrict the movement of MPs. While it was easier at one stage for parliamentarians to engage and disengage themselves from parties with ease, the Integrity Law has now outlined restrictions to try and get parties to maintain support at least over longer periods of time. At one stage, and particularly in the 1990s, parties were rising from the floor of Parliament whenever a faction felt like having one to build coalition numbers, but are soon abandoned when they outlive their usefulness. The Integrity Law is currently under review in an attempt to amend loopholes, particularly after experiences from the 2002 national election and developments in the new Parliament.

The most recent governments have embarked on a reform process aimed at reinvigorating good governance and to infuse professionalism back into the public service. The success thus far is miniscule, if any at all, but there is no question about the effort that has been committed by individuals and organizations. The biggest obstacle, at least by my opinion, is trying to unlearn what has become the bedrock of government and national politics in PNG. In other words, some of the

practices that are to be eradicated have been part and parcel of how politics is played out in PNG.

The Integrity Law is one example of a law that has been instituted to curb specific problems associated with a fluid party system and coalition formation in Parliament. Another important piece of legislation under the present reform process is adoption of a new electoral law called the limited preferential voting (LPV) system to replace the first-past-the-post (FPTP) system (which is also called the plurality system).

The optional preferential voting (OPV) system was tailored specifically to suit the intractable conditions of PNG. It was based on Australia's exhaustive voting system called the Alternative Vote. Voters are asked to make an order of preferences in their candidate choice, that is, from "1" as the most preferred to the least supported candidate. When a candidate acquires 50+1 % of votes in the first count, there is no longer a need to distribute the rest of the votes. In the event where a candidate does not acquire 50+1 % of the votes, the least supported candidate in the first count surrenders his (or her) ballot papers and are then redistributed among the remaining candidates based on the second preferences. The process continues until a winner emerges with more than 50 % of the votes.

Given an unsophisticated population with limited education and literacy levels, the OPV required voters to indicate as many preferences as they wanted; that is, from "1" to the full number of candidates. By the 1968 and 1972 elections, the OPV was proving to be untenable since many voters were indicating single choices. In other words, the electoral outcomes were becoming more like that of FPTP results.

Thus, the change to FPTP in the mid-1970s was to authenticate a process and practice that was already in existence. However, the adoption of the FPTP system was to exacerbate and/or introduce problems. The most obvious was that it lowered the winning threshold for candidates through out the country.

The passage of the limited preferential voting (LPV) system in 2001 was meant to curb problems that have deteriorated over the years. The country cannot go with a full preferential, which effectively is the Alternative Vote. It would be too complicated for many people, the majority of whom have to put up with increasing number of candidates per electorate in each election. The LPV requires voters to indicate three choices in the order for "1" to "3." There is no guarantee that a candidate would acquire 50+1 % of the votes in the first count. If that is so, the elimination process starts with the distribution of ballots for lowly supported candidates. But even after all ballots are exhausted, there is still no guarantee that a winning candidate is going to acquire more than 50+1 % support. Winner, therefore, would one with the highest number in terms of ballot support by the third count, which would not necessarily be 50+1 %. The LPV would be used for

the first time in by-elections that come out of the court of disputed returns after the 2002 national election. The first of these elections is likely to be staged in 2003.

3.2 Market economy

Papua New Guinea has made little progress in transforming its weak economy. There are deficiencies of transformation in the organization of competition, in combating market concentration and the formation of oligopolies.

3.2.1 Level of socioeconomic development

The key indicators show a very low level of development. Measured in terms of HDI, the country's level of development permits little freedom of choice for most citizens. There are indications of fundamental social exclusion on the basis of poverty, regionalism, education or gender discrimination. Throughout the period under study, Papua New Guinea has not been able to keep social disparities moderate, poverty low, and income distribution relatively egalitarian.

Continuous poor management of the economy has caused the economy to go into recession since 1999 and there is real fear that the economic may collapse. Existing developmental imbalances among regions have not been reduced.

3.2.2 Market structures and competition

Although on paper, PNG is an open economy where any player can enter at any time, in practice this is not often the case. There are invisible barriers to enter. High establishment costs, law and order problems, red tape or bureaucratic roadblock, political corruption remain major barriers to entry. The state is also not foreign investor friendly, contrary to its public pronouncements. There is a myriad of regulations and paperwork to complete before a foreign enterprise can start operations in the country.

Corrupt political leaders, combined with an incompetent and corrupt bureaucracy has only meant that in practice, business willing to pay bribes or "facilitation money" can get a significant advantage over their competitors. Commissions of Inquires have found numerous instances of public tender going to companies or individuals willing to reward, in private, the tender decision makers. Large and well established companies have a significant advantage over newcomers. State policy on competition and development remains skewed in favour of the large and established companies.

In restructuring the financial systems and the corporate sector, the government has repeatedly suspended general rules of play when it wished to. A dramatic example of this was the 1999 privatisation of the PNG Banking Corporation (PNGBC), the largest bank in the country. The central bank, the Bank of Papua New Guinea, the Privatisation Commission and influential figures in government took extraordinary steps to ensure that one particular bidder, Bank South Pacific (BSP), a bank representing local capital, won the privatisation bid. The Central Bank wrote to Westpac, an Australian bank which has been operating in PNG before independence, to advise it to withdraw its bid for PNGBC. This is in clear breach of the government's own guidelines on privatisation, i.e., an open tender process with the aim of getting the best price for PNGBC. Not only was BSP offering a lower bid, at the time of its tender, it was technically insolvent.

There was no anti-cartel legislation in PNG during the period under study. An anti-cartel legislation and competition policy, based almost entirely on the Australian one, was promulgated in 2003. The office enforcing the competition law is undermanned and will unlikely make a real impact. Fundamental problems in the corporate sector, such as under capitalization, indirect cross-ownership and inadequate corporate governance are the norm rather than the exception.

Partially in response to pressure from the WTO, IMF and the World Bank, foreign trade has been liberalized although significant barriers exist. Local businesses, fearing competition, have been urging the government to get exemptions from mandatory lowering of tariffs under WTO rules. It is a fact that many manufacturing plants in the country cannot compete without protection due to the small capacity, adverse domestic market conditions and inefficiency.

The financial system, which was formerly politically regulated and undercapitalised, has continued its restructuring. Nevertheless the restructuring will have little long term effect as the small economy and market ensures that there is an unofficial oligarchy at work. By late 2002, there were only four banks in the country- Bank South Pacific (BSP), Australia New Zealand Bank (ANZ), Westpac and Maybank PNG. Prior to that the situation was not much better- there were only two additional banks. BSP now alone controls about 60 % of the market ensuring that it is in a position to dictate the competition trends, if any.

The same story is repeated in the retail sector. Four companies—TST Group, Steamships Trading Company (STC), Papindo Trading and Super Value Stores (SVS)—control about 85 % of the retail merchandise market. A new player would find it almost impossible to break into the retail sector unless he/she builds a strategic alliance with one of these four companies. The same story on unofficial oligarchy at work is repeated in almost all sectors of the economy.

Although the government has committed itself to the policy of privatisation to boost efficiency and boost the economy, this has not been translated into anything

concrete. The former government of Sir Mekere Morauta (1999-2002) established a Privatisation Commission to prepare state owned enterprises (SOE) for privatisation. Unfortunately the process became political and vested interests began to interfere. By the time the Mekere government was lost office, the Privatisation Commission had spent more money on administration than actually selling the SOEs. The new Somare government has signalled that it intends to halt privatisation and would rather keep major utilities such as telephone and water in public hands. Many of these SOEs such as Telekom PNG hold a virtual monopoly as they are protected from competition by law.

Incompetent and inconsistent policies have also led to more and more investors pulling out of Papua New Guinea. Policies often change when governments change. Since independence, no governments have served their full term. More governments have been formed through a vote of no confidence in parliament than general elections. Political instability has been cited as a major problem.

3.2.2 Stability of currency and prices

Although the Central Bank tried to pursue a consistent monetary and fiscal policy during the period under study, its efforts were largely in vain due to the continuing slide of the Kina, the national currency. In 1998, the Kina was worth about 48 cents US, by the end of 2002, it was worth only 24 cents US. In the 1980s, the kina was stronger than the US dollar.

There are two major reasons for the Kina's slide over the past two decades. First, the fiscal position of the government has consistently been deteriorating. Political interference and corruption has meant that budget deficit has never been really kept under control. When the government ran short of money, it borrowed from overseas or domestically. Second, the market has lost confidence in the government's ability to manage the economy.

Capital flight represents a major problem as those with capital refuse to invest (or re-invest the profits) in the country, preferring to move their money overseas. The continuing slide provided an added incentive to move money offshore. These two major factors have combined to push the Kina on a downward spiral. Inflation is also a huge problem. Official inflation rates during the period under study range from between 9.3 and 15.6 %, however, the rate is much higher.

3.2.4 Private property

Property rights and the acquisition of property are adequately defined. However, it must be noted that the bulk of the land in the country, more than 90 %, is not surveyed and is deemed as customary land. It is not possible under present laws to

get a title to these lands. They are deemed to belong to traditional owners, commonly referred to as “landowners”. Because these lands are not properly surveyed, disputes often arise as exactly who the rightful “landowner” is. It is common for tribal war to erupt over who is the “landowner”.

Even land that has been properly surveyed and registered with the Lands Department suffers from landowner problems. Often a tribe will claim “compensation” for land sold by their ancestors two or three generations ago, arguing that their uneducated and illiterate ancestors did not really intend to “sell” or alienate the land to the state. Landowner disputes are common with big projects and represent a major disincentive for big developers. Even land acquired by the state is not immune from landowner problems. Water supply in the capital Port Moresby is periodically disrupted when landowners shut down the dam to demand “compensation”. Major oil and gas projects are periodically shut down by different factions of “landowners” over compensation disputes or internal political disputes.

The problem with traditional landowners is of course not unique to Papua New Guinea. In many other countries in the South Pacific, landowner disputes are also common but the level of violence relating to the dispute is perhaps lower when compared to Papua New Guinea.

3.2.5 Welfare regime

The national government does try its best to cater for essential services as greatly subsidized prices. Thus, it does help that health care is supported by the government to allow ordinary people to have services which otherwise would be beyond their reach if these services privatized. The poor flow of revenue, otherwise, has led to the deterioration of services over time. So, Papua New Guinea has only a very rudimentary public welfare regime.

Instead, emphasis is placed on familial and “wantok” support. Wantok (one talk) refers to people speaking the same dialect or language, signifying that the person is a relative or from the same clan. Social obligations based on reciprocity requires one to aid a wantok. It is not uncommon for a house to be full of one’s wantoks, who stay as long as they wish, and live off the owner of the house. Many cases of corruption in Papua New Guinea can often be traced to wantokism, or nepotism in the extreme. It is common to appoint one’s wantok to every available position. Wantokism is especially rampant in the civil service.

The deterioration economy in the past few years has affected every fabric of society. As the economy shrinks, the number of formal jobs has disappeared and employment is a major problem. Anecdotal put urban unemployment as high as

more than 50 %. This has fuelled an increase in poverty, raskol and other anti-social activities.

Poor governance and the weak economy have had a major impact on the health and education system. Both have deteriorated sharply in the period under study. Health care and education is especially bad in the rural areas. Many preventable diseases such as measles are still claiming lives due to the inability of the Health Department to buy the necessary drugs. Reforms in these sectors have largely failed, and in many instances, aid money from international donors, especially from Australia, is the only factor stopping the health and education system from total collapse.

The big problem in the coming years will be HIV/AIDs. HIV/AIDs is spreading rapidly and available figures suggest that there are about 20,000 people with HIV/AIDs, the majority in the 20-34 year age group, the most economically productive age group. In the worst case scenario, there will be an overall decline in real Gross Domestic product (GDP) by approximately 7.5 per cent to what it would have been without HIV/AIDS.

3.2.6 Strength of the economy

Papua New Guinea has gone from one crisis to the next in the past two decades but in the past five years, there has been a sharp drop in all social and economic indicators. The economy is in the doldrums with no real prospect of growth and there is no real effort to promote good governance. Corruption is still pervasive in all levels of government and reaches to the very top.

3.2.7 Sustainability

The basic outlines of a social safety net to compensate for poverty and other such risks are not in place and will not be in place for sometime to come unless the international donor support is put in place. Equality of opportunity is only available to those who can afford of pay. There are hardly any mechanisms to assist with the advancement of women, the disabled or the socially disadvantaged. Women are at a significant disadvantage when it comes to access to higher education, income and public office. Reforms in family law have reduced gender-based discrimination against women in the legal system but many women are unaware of the laws or simply cannot afford access to legal services to enforce their rights.

Environmental awareness has grown in recent years among the society and lawmakers but environmental concerns take a back seat to growth considerations. The new government, like other governments, that came into office in September

2002 believes that the creation of jobs and a revival of the economy must take precedence over all other priorities.

Papua New Guinea does not have a well-developed state education system. The adult literacy rate is only 52.7 %. In recent years, the education system, due to insufficient funding and mismanagement, has deteriorated further and standards are even lower now than the late 1970s and early 1980s. Many primary and secondary schools throughout the country suffer from early closure during the academic year when funds from the central government are exhausted, arrive late or misappropriated by senior staff. In several highly publicised cases, funds earmarked for schools are stolen by the headmasters or senior staff from the Education Department. Many schools throughout the nation suffer from permanent maintenance neglect.

Parents who can afford it prefer to send their children to private institutions where fees are well beyond the reach of the majority of Papua New Guineas. There is an extensive network of private primary and secondary school education. Those who can afford it almost always head towards Australia for their education. An overseas education is still seen as superior to local education.

4. Trends

(1) Democracy: Since the late 1980s, the criteria of the state monopoly on the use of force, an effective administrative system, functional courts and public safety and order have all worsened. The same applies to the indicators for elections and to the actual ability of democratically elected officials to govern. Corruption and poor governance remains widespread. The PNG state still functions, but is very weak. The rule of law still prevails, but has also been compromised in certain areas. Democracy is still vibrant, but it is very much procedural.

There are progressive elements in the NGO movements, and freedom of opinion and of the media is respected. Civil interest groups and organizations have continued to advance, but they are mostly the preserve of the educated elite. The development of a civic culture supporting democracy has regressed as the majority of the citizens struggle to simply survive. Surveys by newspapers indicate there was a crisis of confidence as people have lost faith in the political system, believing that almost all elected politicians are self-serving.

However, some political reform initiatives are currently being undertaken. Perhaps the most significant among them is the merit-based appointment system. It has been a practice that appointments to political posts were the prerogative of ministers or board of directors. This exposed the appointment system to serious abuse where people were getting appointed not on experience, qualification, or other bases of merit. The new government since coming into office in August

2002 has taken the initiative to introduce a merit-based appointment system, one that has been welcomed widely by the public.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP index	UN Education index	Political representation of women^a	GDP p.c. (\$, PPP)
1997	0.570	0.564	0.53	0.83	1.83	2,350
2000	0.535	n. a.	0.52	0.55	0.91	2,280

^a Percentage of women delegates in parliament after 1997 and 2002 Parliamentary elections.

Sources: UNDP, Human Development Report, 1999, 2000, 2001, 2002.

Table: Development of macroeconomic fundamentals (1998-2002)

	1998	1999	2000	2001	2002
Growth of GDP in %	-4.5	1.5	-1.3	-3.5	-2
Inflation in % (CPI)	13.6	14.9	15.6	9.3	11.8
Unemployment in % (estimates)	31	36	38	39	41
Budget deficit in % of GDP	-2.1	-2.5	-2.3	-3.9	-3.8
Current account balance in millions PGK	-276	160	359	708	172

Sources: Bank of Papua New Guinea Quarterly Economic Bulletin (various issues); National Statistics Office; IMF, author's own calculation

(2) *Market economy*: The fundamental developmental indicators show a reverse in development during the period under examination. This also holds true for indicators of sustainability, while the change in the Gini index shows an increase in disparities of income. Unless the economy can be turnaround quickly, the emergence of a free market economy is likely take a long time.

The institutional environment for action based on market economy has not improved as deficiencies in the organization of the economy and competition

remain. The pace of reform slackened significantly during the period. Measured in terms of macroeconomic data, Papua New Guineans experienced negative growth during the period.

5. Transformation management

5.1 Level of difficulty

One cannot under-estimate the level of difficulty in transformation management for a country like Papua New Guinea. The country is beset with basic problems such as poor governance, high level corruption, lack of infrastructure, small and unstable economy, aid dependency, low levels of education, ethnic conflicts and economic recession. All these conditions provide poor conditions for continuing transformation. In terms of structural socio-economic conditions that dominate the political process for the long term, the level of difficulty of transformation must therefore be considered high.

5.2 Reliable pursuit of goals

The Papua New Guinea government's strategy for economic reform was, by and large, determined by domestic political concerns combined with pressures from international agencies such as the World Bank and the IMF. Although successive governments have placed good governance and economic recovery as its main goals, none has made any real impact in these two areas.

In the short period under review, there has been political instability symbolised by three changes of government within a five year period. The economy has gone backwards in the period, symbolised by the rapid depreciation of the Kina, the national currency. The unstable political system coupled with high level corruption make long-term and sustainable plans impossible. Reforms after reforms failed because of a lack of political will, state capacity and corruption.

5.3 Effective use of resources

The government has not made effective use of available staffing and organizational resources for its transformation policy. A major problem is the lack of political will and lack of capacity in the bureaucracy. The politicisation at the top of the bureaucratic tree has created a culture of wantokism and corruption across all levels of the civil service. A constant change among senior bureaucrats has meant that there is no continuation of policy, or institutional memory. Public funds are routinely stolen or diverted for private use. Almost all reform policies was implemented ineffectively and driven by donor aid agencies.

This also applies for combating corruption. Although strict laws and regulations are in place, corruption is widespread. Part of the problem, as mentioned earlier, lies with the Melanesian cultural notion of reciprocity, called the *wantok* system in Papua New Guinea. A focus on personalities rather than institutions and nepotism are seen as “natural” as opposed to the rule of law. Individuals who refuses to participate in wantokism are ostracised by their immediate family and clan members, a heavy burden in a society where community is always more important than the individual.

5.4 Governance capability

The Papua New Guinea government has little capacity for policy reform and implementation. Reforms, rarely if ever, are fully implemented on time or in full, based on the reasons outlined above. In terms of economic transformation, the political players from the various camps have largely proved willing to learn but are unwilling to implement the hard decisions necessary to build a modern economy.

The government’s ability to organize domestic-policy reform was constrained by political instability, vested interests and corruption. More often than not, real reforms only take place after considerable pressure from the international donor community. In such cases, the donor agencies will have to pay for the entire process- from the personnel involved in the reform process, to the monitoring and review process. In other words, reforms only happen when there is enough pressure and resources allocated to the task from the outside.

5.5 Consensus-building

All major political and social players agree on the goal of the reform (a strong market-based economy), although their idea about how to get there vary considerably. There are no players with anti-democratic veto powers. Opposition parties and oligarchies employ parliamentary majorities or economic power to create de facto blockades for market-economy reform processes. Corruption and poor governance has slowed down reforms, but is not an expression of fundamental dissent about the direction of development towards a socially cushioned, reform-oriented market economy.

Numerous NGOs are trying to exert an active influence on the management of economic and social policy although without much success. There is a huge gulf between what those in power want and what civil society wants. The rich, influential and powerful want to retain their privileges and huge disparities between them and the general population while distribution of wealth and good governance are the main aims of civil society. The reluctant of the government to

deal with high level corruption remains a key hindrance to consensus building with civil society.

5.6 International cooperation

Papua New Guinea is one of the highest aid recipients in the world in per capita terms. It has always engaged actively with the International Community. The donor community (especially Australia), World Bank, the IMF, and the Asian Development Bank, have been working in the country since independence. In recent years, the government has shown a willingness to pursue reforms after conditionalities were inserted into structural reform plans or structural adjustment policies by institutions such as the World Bank and the IMF. Australia also plays an important role being Papua New Guinea's former colonial master and its biggest aid donor. Despite many attempts by the international community to promote good governance, instil fiscal discipline and capacity building for the civil service, almost all have failed or did not fully meet their objectives. The government believes that it must engage the international community and sees donor aid as a key infringement in the development of key infrastructure for the country.

6. Overall evaluation

In view of the originating conditions, current status and evolution achieved this report arrives at the following concluding evaluations:

(1) Originating conditions: The starting conditions for transformation can be rated as negative overall. Even before the observation period, the country had ineffective market-economy structures. The "state" is very weak and is in danger of total collapse if the economy collapses. Yet there are positives- PNG receives one of the highest levels of aid per capita of population, Australia is committed to see some real reforms take place, and agencies such as the World Bank and the IMF, are willing to help the country get back on its feet.

(2) Current Status and Evolution: Democratic transformation cannot evolve under trying circumstances, especially if the nation is undergoing an economic crisis. Papua New Guinea does not have an efficient government and the people do not fully appreciate nor understand democracy. The overall evaluation is thus negative.

7. Outlook

Overall, the transformation picture is a not a positive one. It underscores the estimation of many observers report that Papua New Guinea has declined rapidly in all areas in the past decade. The strategic key tasks for democratic and market-economy reforms over the medium term lie in the rule of law, good governance, an efficient and capable bureaucracy, political stability and economic recovery and development. In strengthening the rule of law and civil rights, both political and legal reforms are indispensable: the government must be willing to pursue corruption cases against senior people and reform the public service. The country must also devise new ways of promoting political stability and ensure that elected governments are given a chance to serve their full term.

The prospect of a turnaround in confidence and economic recovery in Papua New Guinea will also depend on the achievement of macro-economic stability.