

# BTI 2014 | Papua New Guinea Country Report

<b>Status Index</b>	1-10	<b>5.56</b>	# 69 of 129	
Political Transformation	1-10	5.95	# 62 of 129	➔
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	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	7.2	HDI	0.466	GDP p.c.	\$	2898.1
Pop. growth <sup>1</sup>	% p.a.	2.2	HDI rank of 187	156	Gini Index		-
Life expectancy	years	62.2	UN Education Index	0.318	Poverty <sup>3</sup>	%	-
Urban population	%	12.6	Gender inequality <sup>2</sup>	0.617	Aid per capita	\$	82.1

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

During the period under review, Papua New Guinea (PNG) made slight progress toward providing its citizens with greater freedom of choice by improving the state of democracy and its market-based economy. Although the economy continued to improve and the country experienced a decade of uninterrupted growth, the lives of its ordinary citizens have improved only marginally. Poverty is still widespread. There have been some positive developments during the period under review, although not many new policies or changes were made. Part of the problem is that for most of 2011, Prime Minister Sir Michael Somare was hospitalized in Singapore where he underwent surgery. The entire government was under a caretaker prime minister and this resulted for a period in a power tussle between those who wanted to force Somare into retirement and those who wanted him to stay on. In August 2011, members of the government supported Peter O'Neill in his successful bid to become prime minister. In December, Michael Somare filed and won a Supreme Court challenge and was reinstated as prime minister. O'Neill refused to recognize the court order and simply carried on as prime minister. This led directly to an attempted coup by soldiers loyal to Somare in January 2012, which was quickly put down.

The issue of who was the legitimate prime minister was finally resolved when Peter O'Neill's coalition won the July 2012 general elections.

The holding of the general elections, despite some moves to delay it, was the most positive news for PNG in the period under review. It resulted in the election of Peter O'Neill as the legitimate prime minister. He was able to take power peacefully, resulting in continued economic recovery and growth, largely sound economic policies, stability in the exchange rate, an increase in foreign exchange reserves, and peace on the war-torn island of Bougainville. The institutional hardware of a market economy is firmly in place. The most positive news in the period under review is the ongoing construction of the liquefied natural gas project (LNG) project, with the first shipment due in 2014. This project is expected to pump \$30 billion into the PNG economy over the next 30 years and contribute an additional 20% to the country's GDP. On top of this, the Ramu nickel

mine has started shipping overseas and it is expected to become a major source of foreign revenue for the state.

The government also took steps to set up a new sovereign wealth fund (SWF) to invest revenue earned from resources for future generations. If the money generated by the project is utilized properly, there is a real chance that the country can undergo a profound change for the better. Nevertheless, PNG continues to face some deep-rooted problems, such as its low level of socioeconomic development, tribal wars, law and order breakdown in most parts of the country, and high levels of corruption. Per capita income is currently lower than it was at the time of independence. As long as the problem of high-level corruption is not dealt with, there are severe limits on genuine reform.

## History and Characteristics of Transformation

Beginning in the 1950s and continuing into the 1960s, Papua New Guinea's state system was imposed on thousands of ethnic and social groups throughout the country's territory. Political institutions that were developed and refined over hundreds of years elsewhere were introduced to PNG in less than 20 years. The first national elections were held in 1964 for the National Parliament and a mere eleven years later, PNG was granted sovereign statehood with all the trappings of a fully fleshed modern state. The rushed transition of authorities from colonial control to independence left the state's institutions with little time to prepare. These institutions were left open but also vulnerable to opportunism and manipulation by actors and agents who, by virtue of their positions in the state hierarchy, were able to pursue their own personal enrichment. In other instances, individuals approached the state system as a convenient structure to extend their patronage responsibilities and obligations and, hence, "state capture" by particularistic interests became widespread. The fact that there were overlapping forms of authority, both formal and informal, left the fate of the state at the mercy of those who were operating within its hierarchy.

The country's national constitution was also drawn up in haste in advance of independence. It was designed for a population that had a limited sense of national identity and whose claim to a national history was derived from developments in two separate colonial territories (Papua and New Guinea). A rather abstract national vision was formulated by a constitution that was then approved by a national consultative process whose participants were largely ignorant of the significance of statehood. The vision was steered in part by inspirations drawn from other former colonies elsewhere in Oceania. Within this transitional milieu, democracy and the rule of law was expected to take root and to follow the Westminster model of government.

Since achieving independence from Australia in 1975, Papua New Guinea has nurtured a relatively open economy. Dual in nature, the economy includes a small formal economy and a much larger informal economy in which subsistence farming accounts for the bulk of economic activity. Nearly 85% of the population resides in rural areas, and annual population growth is relatively high at

approximately 2.5%. The formal sector provides a rather narrow employment base for those engaged in mineral production, manufacturing, the public sector, and service industries such as finance, construction, transportation and utilities. The rapid urban growth underway since independence is related to high levels of urban unemployment, high crime rates and other related social problems. Papua New Guinea's economic growth has relied heavily on the mining and petroleum sectors. These two sectors combined generate approximately 20% of government revenue and 60% of export revenue. Agriculture, which accounts for about one quarter of exports, has in recent years expanded through cash crops such as coffee, palm oil, cocoa and copra. The other major export is raw timber logs.

Politics in Papua New Guinea have been marked by two distinct features, the first being the fact that only one government has completed the full term for which it was elected. The second feature has been the high levels of corruption. On average, governments in Papua New Guinea last no longer than three years. Of the 12 governments elected since 1977, three governments have been ousted through votes of no confidence, seven have been removed through national elections, and the remaining two ejected for other reasons. During this period, the threat of no confidence votes jeopardized cabinet stability and durability. Weak political parties in which members of parliament had little political legitimacy and were therefore susceptible to corruption. This pattern was broken by Prime Minister Sir Michael Somare, who was first elected in 2002 and again in 2007 for a second term. To facilitate stability, the government of Sir Mekere Morauta (1999 – 2002) introduced the Organic Law on Political Parties and Candidates (OLIPPAC), which makes it extremely difficult for members of parliament to switch parties or resign from their party. This law effectively makes it much more difficult to remove a sitting prime minister through a vote of no confidence which previously was often brought about by massive defections. The OLIPPAC itself had sections nullified by a Supreme Court ruling in 2010 on the grounds of breach of the National Constitution. Nevertheless, corruption is present at the top echelons of government and bureaucracy, and it is the single biggest cause of the country's decline since independence. Huge sums of money have disappeared into the pockets of politicians and public servants or have been misspent by successive governments. There is very little political will to fight corruption as it permeates every layer of society, politics and bureaucracy. PNG is widely regarded by the international community as a "weak" state. In 2012 a national election was held and Peter O'Neill emerged as PNG's 9th prime minister.

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

The state's monopoly on the use of force is established nationwide in principle but is challenged in practice by criminal gangs referred to as "raskols" and tribal groups. Raskols operate mostly in urban centers and have access to high-powered weapons. These criminal gangs are also regularly found in rural areas, for example, near resource-development sites such as mines. It is important to note that criminal gangs from urban centers are highly mobile and can easily relocate to other parts of the country for brief periods when opportunities arise for them to carry out their activities there. Tribal wars are largely concentrated in the highlands. None of these groups are in a position to take over the country, although tribal groups are capable of taking over small territories for limited periods. During the period under review, there was a general election in June/July 2012 leading to violence in several highland provinces, initiated by supporters of various candidates. The army had to be called in to maintain law and order and help provide security for polling. In major towns such as Port Moresby, Madang and Lae, raskols are increasingly using high-powered guns to fight the police. In the period under review, there were five major bank holdups by raskols. While criminal gangs still exist and operate in urban centers, there is a significant difference between organized gangs and groups that spring up spontaneously out of convenience or perceived opportunity. It would seem today that organized gangs have reduced their activities on the streets, but this has coincided with an increase in white-collar crime. White-collar crime is defined here as collaboration between criminal elements on the street and individuals within the system. Examples include highly placed public servants or individuals able to exert influence and authority in order to bend rules and allow the proceeds of criminal activities to flow in their direction for the mutual benefit of all involved.

With the exception of the island of Bougainville, there are no regions in Papua New Guinea where problems with state identity arise. With an estimated 830 distinct linguistic groups, the country is highly fragmented in cultural terms. While the

Question  
Score

Monopoly on the  
use of force

6

State identity

8

traditional division between the highlanders and those who live along the coast still exists, the country's demographic divisions are now much more fluid. Nevertheless, derogatory stereotypes of highlanders being violent and "backward" persist. As they are geographically as well as culturally closer to the Solomon Islands than mainland Papua New Guinea, the population of Bougainville tried unsuccessfully to gain their independence in the 1970s. In 1989, a war of secession broke out and in 2004, the Papua New Guinea government unveiled a new constitution for the island, granting Bougainvillians greater autonomy. In the period under review, an autonomous provincial government has been in power for seven years. In an important move, the provincial assembly passed a mining policy bill which allows for exploration on Bougainville. The motion was passed unanimously by the 39 members of the National Parliament. Given that mining was the cause of the civil war, this was a highly significant move. Nevertheless, tensions between the central government and Bougainville remain, and many among the PNG elite believe that Bougainvillians still aim to create a separate state despite gaining political autonomy.

Although the state is secular, the constitution does refer to PNG as a Christian country. Religious leaders from the Protestant and Roman Catholic churches and smaller Christian denominations remain influential and their influence can be seen in the way some individual church members supported candidates in the 2012 national elections. Almost all political parties in the 2012 elections claim to be guided by Christian principles. The political process is secular and freedom of religion, by and large, is respected. Because the overwhelming population is Christian (more than 90%), policymakers take church leaders' opinions seriously. Several priests have resigned from their duties with the Roman Catholic Church to pursue a full-time political career, the most prominent example being the former governor of Bougainville, John Momis. There is no manifestation of political rivalry that shows a religious divide. However, reservations have been expressed against other religions, such as Islam in particular. There is one mosque in Port Moresby – possibly the only one in PNG. Looking ahead, it remains to be seen how the country's religious configuration will develop given the very close and intimate contact among border communities along the PNG/Indonesia border, especially around the Wutung area of Sandaun province, where commercial activities are flourishing.

Most analysts consider PNG a weak state in which the state apparatus cannot implement even the most basic policies. The government's most fundamental operational machinery is either dilapidated or non-existent in many rural areas and the highlands, where tribal conflicts continue. In the past two years, the ability of the state to provide basic services has remained unchanged. The law and order situation has worsened due to the general elections. Crime in all major cities has reached such a serious level that the government is thinking of using the army to undertake some police work. Health care is not properly provided beyond the vicinity of major towns and provincial capitals. The tribal wars for which the highland areas are notorious are

No interference of religious dogmas

8

Basic administration

4

not the result of a lack of government machinery, but emanate mainly from traditional animosities that predate the modern state system. However, the limited state presence has failed to reduce these conflicts. There are also cases of poorly designed laws that have curtailed good governance. Changes made to the provincial government system in 1995 further weakened the presence of the state mechanism in peripheral areas, which caused more problems for the central government. What has become increasingly evident since the 1980s has been the increasing politicization of the civil service. The state's presence naturally has often been felt through the civil service. Thus, apart from badly designed legislation that curtails the "reach" of the state apparatus, there is also a weakness on the part of society at large to keep elected leaders in check, since quite often laws are passed to suit political conveniences of the moment. In this regard, traditional animosities expressed in tribal clashes – which are otherwise often confined to specific locations of the country – are exacerbated by poor political decisions.

## 2 | Political Participation

Papua New Guinea is a parliamentary monarchy with Queen Elizabeth II as the head of state. She is represented in Papua New Guinea by a governor-general. The governor-general is elected by members of the national parliament and performs ceremonial functions. Executive power lies with the prime minister and the cabinet, who depend politically on parliament. There have been both universal suffrage and regular elections since independence. Elections are free but not fair. In the highlands and certain coastal regions, massive vote buying, ballot rigging, clan voting, violence, intimidation and cheating are widespread. The main difficulties with conducting free and fair elections in 2012 (as in previous elections) have been deep-seated challenges to the PNG Electoral Commission, impairing preparations and logistical arrangements. Such problems are compounded by the fact that voters in some electorates – with or without the support of candidates – are bent on bending the electoral rules from the outset and throughout the election process in order to secure favorable outcomes. This is an issue that cannot be policed properly in a country as rugged and with such a poor state presence as PNG. The problem has been also evident in the 2012 national elections. During the recent national elections (won by a coalition led by Peter O'Neill of the People's National Congress Party), more than a dozen people were killed in election-related violence. In Tangu and Biamb villages, near Madang, cult killings disrupted the voting process after at least seven people were killed and fell victim to cannibalism. There were incidences of underage voting, bribery and hijacking of ballot boxes. An official from the Election Commission was arrested for fraud and ballot tampering.

Free and fair  
elections

6

Nevertheless, the transfer of power took place peacefully after election results were announced, although the losing side filed several lawsuits against the winner. The military and the police have generally refrained from interfering in politics.

While elected leaders have the constitutionally mandated power to govern, this power is in practice often compromised by clan and regional loyalties, powerful business groups and interest groups such as landowners and the military. The problem is compounded by high levels of corruption among senior politicians and a corrupt and inefficient bureaucracy that often lacks the capacity to carry out government decisions, or in some cases, is used by powerful individuals (referred to as “Big Men”) to subvert government policies. In January 2012, a group of officers loyal to the former prime minister, Michael Somare, tried to stage a coup by taking over the main military base in Port Moresby. However, the coup was put down in 48 hours.

Effective power to govern  
4

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

Association / assembly rights  
10

There are no restrictions on the freedom of expression for individuals or the mass media. The media often exposes corruption and criticizes national leaders. However, the business interests of media outlets’ owners often restrict content. “The National” daily, which is owned by the logging giant, Rimbunan Hijau (RH), never prints a negative story about RH or the logging industry in PNG. However, the ownership structure of the media is diversified, and there are other newspapers and electronic media that can provide balanced information. In the 2013 Press Freedom Index published by Reporters Without Borders, PNG was ranked 41 out of 179 countries. While it is true that there is freedom of expression for people and the mass media, there is another side to media work that is often overlooked in PNG: there is hardly any media coverage geared towards exposing wrongdoing. Investigative reporting is not a significant factor in the country, not because it is banned or restricted, but because reporters and like-minded people are fearful of repercussions.

Freedom of expression  
9

### 3 | Rule of Law

There are no formal constraints on the separation of powers between key institutions and there is a system of mutual checks and balances in place. However, the strong executive under Peter O’Neill, faced with a weak parliament, has sought to weaken checks and balances. For example, he refused to accept a Supreme Court ruling that former Prime Minister Somare was the rightful prime minister in December 2011. O’Neill was installed as prime minister by lawmakers in August 2011, when Sir Michael Somare, 75, underwent a series of heart surgery operations in Singapore. The Supreme Court ruled that Somare had not left the post. O’Neill later pushed through the Judicial Conduct Act (2012), which will allow the government to sack judges.

Separation of powers  
6



However in February 2013, the act was repealed after concerted efforts by civil society organizations (CSOs) and political parties.

The weakness of the separation of powers in PNG stems from two factors: (a) the strong reciprocal relationship between members of parliament and voters that is forged at the electorate level and brought into parliament; and (b) the design of the parliament itself, as it is a unicameral parliament. The majority of the 111 members of parliament (2 were added after the 2012 national elections) prefer to be in government rather than the opposition so that they stand a better chance of accessing resources for pork barrel politics. This explains the dominance of the executive over the legislature (Parliament). In 2011, the issue with Sir Michael Somare was the vacancy of the prime minister's post when he was in Singapore for an extended period of time. Sam Abal, who was acting prime minister in Somare's absence, had exceeded his 3-month term. With no one in the government really willing to reveal the full extent of Somare's condition, as required by law, challengers to Somare mounted a move to vote in a new prime minister since there was supposedly a vacancy. This was not a vote of no confidence against Somare but a vote to fill the vacant post of prime minister. The aftermath of 2 August 2011, when Peter O'Neill became prime minister, was a tussle between Parliament (led by a dominant executive under O'Neill) and the judiciary. The judiciary at this time was deemed partial and therefore Parliament believed that a law allowing it to remove judges should be enacted. That was how the Judicial Conduct Act came into being. This act was overturned in early 2013 together with several other laws that were seen to have been adopted in haste in order to attack Somare before the 2012 national elections. While there was pressure from CSOs and parties to remove the laws, in fact the post-election O'Neill-Dion government was more than willing to repeal them out of consideration for Somare, who was now a staunch supporter of the new government. O'Neill apparently also felt that there was no use for the continuation of such laws, adopted on the spur of the moment in order to serve particular purposes.

As in previous years, the judiciary has been hampered by a lack of resources. There are reports of corruption at the lower levels, such as the magistrate level. Several magistrates have been charged with corruption in recent years. Many of the best legal minds stay in the private sector as the public sector does not pay well. Although, in general, the judiciary is free of unconstitutional intervention, the O'Neill government tried to assert executive control by passing the Judicial Conduct Act (2012), since repealed. The JCA was rushed through parliament as O'Neill tried to nullify the December 2011 Supreme Court ruling which declared O'Neill's election as prime minister unconstitutional. In April 2012, the Supreme Court stayed the implementation of the JCA. In 2013, the act was finally repealed by parliament.

Independent  
judiciary

7

Many senior politicians continue to escape prosecution for corruption and abuse of power. Under PNG's Leadership Code, the moment an elected leader resigns, s/he cannot be prosecuted for misconduct, although they can face criminal charges if cases are put together against them. The reality is massive collusion between members of parliament and public servants who can cover for each other. Many senior civil servants who misused public money in the past two years were never charged.

Prosecution of  
office abuse

4

The first order of business for Peter O'Neill after he was voted in as prime minister in August 2011 was to form the Task Force Sweep, a multi-department/agency group that was tasked with commencing fast track investigations into corruption and would allow for quick prosecution. O'Neill increased funding to the Task Force Sweep after the 2012 national elections. It is hoped that the Task Force Sweep will continue its work and lay out the groundwork for a body similar to Hong Kong's Independent Commission Against Corruption (ICAC).

PNG citizens enjoy full civil rights under the constitution but, in reality, marginalized groups such as prisoners, women, children, people living with HIV/AIDS and people with physical disabilities are often openly discriminated against by society at large. There are numerous reports of police regularly beating up suspects and raping women held in custody. Despite reports commissioned by the government about discipline in the police force, nothing has been done. A woman was burned alive because she was accused of using sorcery in Western Highlands. In the highlands, the army and police and raskol gangs regularly set up "security" road blocks to extort money from travelers. In the recent 2012 elections, many citizens in the highlands were not able to vote due to security concerns.

Civil rights

5

#### 4 | Stability of Democratic Institutions

In the past two years, all the key institutions of state were compromised or experienced interference from the executive. Sir Michael Somare and his successor, Peter O'Neill, have both abused their power to stay in office and consolidate political support. For example, in December 2011, O'Neill suspended Governor-General Michael Ogio, thereby making Jeffrey Nape, as Speaker of the National Parliament, acting governor-general. The background to this was Ogio's decision not to recognize O'Neill as prime minister despite supporting his election to the post a few months earlier.

Performance of  
democratic  
institutions

4

However, the Queen of Papua New Guinea, Elizabeth II, refused to revoke Ogio's commission as viceroy. Two weeks later, Parliament reconfirmed Ogio as governor-general and O'Neill as prime minister.

In May 2012, Tjandra Joko Soegiarto ("Jojo"), a businessman wanted by Indonesia and on the Interpol black list, was given a PNG passport and citizenship by several

senior ministers. No action was taken against the ministers in question. Jojo is known to have “sponsored” several powerful politicians.

Most people accept the legitimacy of institutions, despite knowing that corruption is rampant and that politicians are involved in abuses of power. This faith in democratic institutions is reflected in the huge number of candidates in the 2012 national elections. The relevant political parties, economic actors, societal organizations and government bodies are committed to democracy, though it is obvious that democracy is primarily understood as elections. This commitment to democratic institutions also includes the military – the attempted 2012 putsch gained very little support from enlisted soldiers and military officers and at its heart was a constitutional issue: as mentioned above, the Supreme Court had declared Somares to be the legitimate prime minister and O’Neill simply refused to leave office. Therefore, the “coup” could also be seen as the attempt of a small group of officers to re-establish the constitutional order. In addition, what we see today is a hybrid national political culture that has evolved over time out of hundreds of cultural units. It defines the way the government exists and state institutions operate. It is this political culture that offers legitimacy to the country’s political practices. It does not mean that the practices are always beneficial, lawful and in the public interest. It simply means that they are the way things are done, understood and sometimes condoned – i.e. the PNG way of doing things. Recognition and acceptance offers credibility and legitimacy. This in turn becomes the basis for political authority. State legitimacy therefore derives its meaning and intent from other additional sources of authority quite apart from the country’s body of laws and conventions. The weakness of public agencies to impose the will of the state in turn reinforces the credibility and even public acceptance of these extra sources of authority.

Commitment to  
democratic  
institutions

7

## 5 | Political and Social Integration

The PNG party system is fragile. Political parties tend to be driven by personalities and regional or clan ties. All political parties in PNG lack organization, a political philosophy or any real public policies. This state of affairs has resulted in a high level of voter volatility and a high attrition rate of incumbent parliamentarians (well above 50% for the last four elections). It is not uncommon for politicians to form their own parties even if they are the only elected representative. The Organic Law on Political Parties and Candidates (OLIPPAC), aimed at bringing stability to the incumbent government by preventing members of parliament from party-hopping and forcing a vote of no confidence against the prime minister, has not stopped members from defecting in the past two years. In fact, the coalition government of Peter O’Neill was only able to form after the elections with support from defections.

Party system

3

While the OLIPPAC improved cabinet durability, it did not facilitate the institutionalization of political parties and the national party system, which was never

the intent driving the legislation. There are provisions in the legislation that allow political parties to merge or coalesce with other parties. The larger goal is to establish a structural incentive to form fewer and larger political parties, rather than many smaller parties.

Although there are plenty of interest groups and civil society organizations (CSOs) in PNG, only a handful of these have real access to power and policy-making. The powerful interest groups are those connected with business groups or commerce, based around a region or province and Christian groups. Important groups such as women's rights organizations are often left out of the decision-making process. A major problem for interest groups, faced by individuals and by rights organizations alike, is the lack of support from members of the wider public. Interest groups are frowned upon by the government and its representatives and often simply lack the skills to properly air their views on issues.

Interest groups  
5

Consent to Western-style democracy among citizens is high, and the constitutional framework is fully accepted by most segments of society. At the same time, however, it is clear that in many regions of the island nation, people are indifferent to the everyday functions of democracy. In recent years, increasing numbers of PNG intellectuals have started to argue that Westminster-style democracy cannot work in the country given its culture and political history, and that PNG should try "Melanesian" democracy, although it is unclear what this would entail. It appears at the most basic level that Melanesian democracy would mean traditional leadership based on culture and kinship.

Approval of  
democracy  
7

There is a low level of trust among the population. Existing trust is still largely based on clan and tribal loyalties called the "wantok" (one talk) system. Cultural norms such as "wantok" and "payback," which require entire clans or tribes to retaliate against another when a clan member is injured or harmed, supersede any form of civil society norms. NGOs and CSOs are a new phenomenon in PNG society. Payback activities and low levels of trust can be seen as symptoms of social dilemmas. Women's and environmental groups constitute the most successful indigenous self-help organizations. The lack of trust is also due to general disillusionment with the role of the government and its inability to provide basic services and development. Still, traditions of self-organization and cooperation are common in many provinces of the island: people in rural areas assist with community services, which include a range of activities such as maintaining law and order, assisting the elderly and church activities.

Social capital  
5

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers  
4

Poverty and social exclusion are quantitatively and qualitatively extensive, and they are structurally embedded. PNG ranks 153th out of 187 countries on the 2011 HDI and 153rd out of 187 countries in the Gender Inequality Index (GII). The Gini index for PNG is estimated to be 50.9. The World Bank estimates adult literacy rates of 57% for males and 63% for females. A joint Australian-PNG report suggested that all the universities in the country are underperforming. Unemployment is estimated to be higher than 70% and more than 80% of the population relies on subsistence farming or the informal economy for their daily needs. The World Bank estimated that in the period 1993 – 2002, approximately 57.4% of the population survived on less than \$2 a day, suggesting that 70% of the population live below poverty line. Current estimates are roughly similar. Infant mortality is ten times higher than in developed countries, and the prevalence of HIV and AIDS is increasing. The latest HIV/AIDS surveillance report says that about 20% of the male population in the highlands is HIV positive or exposed to HIV/AIDS through casual sex. Efforts to eradicate poverty have been hampered by corruption and poor governance. Moreover, ineffective policies, especially in the agricultural sector, have failed to assist the bulk of people living off the land. Coffee production by smallholders, which used to be a major cash crop in the highlands, has fallen on hard times. The main causes for this are: law and order, land disputes, lack of basic coffee farming skills, lack of quality control, no government help and poor rehabilitation of existing coffee trees. The Coffee Industry Corporation (CIC), the government's regulatory agency, is by all accounts dysfunctional.

Although the country has experienced a construction boom and mineral resources boom in the past few years, it has had little effect on the poverty rate. Many of those who benefited from the construction boom are foreign workers who fly in to work on sites, while the major beneficiaries of the mineral resources boom are the mining companies and selected politicians.

Women suffer significant discrimination, mainly due to a male-dominated culture. It is not uncommon for men in PNG to regard women (and children) as their property. According to the 2012 Gender Inequality Index (GII), PNG's value is 0.617. Only three female members of parliament were elected in the 2012 general elections, out of 109 seats in Parliament. In the previous parliament, there was only one female member.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	7914.6	9480.0	12393.6	<b>15653.9</b>
GDP growth	%	5.5	8.0	9.0	<b>8.0</b>
Inflation (CPI)	%	6.9	6.0	8.4	<b>2.2</b>
Unemployment	%	-	4.0	-	-
Foreign direct investment	% of GDP	5.3	0.3	-2.5	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-585.1	-633.0	-	-
Public debt	% of GDP	-	-	-	-
External debt	\$ M	1787.0	5965.0	12582.1	-
Total debt service	\$ M	542.7	811.7	1184.0	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.1	3.1	3.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.5	0.5	0.6	<b>0.5</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Market competition has a solid institutional framework, but the rules are not consistently or uniformly applied to all market participants. PNG's small economy means that there are oligopolies, such as Trukai (rice supply), and firms supported by powerful politicians, which often receive favorable treatment from the government. A prime example is the state-owned company Telikom, which uses its status to create barriers for competitors – particularly in the mobile phone and internet-provider sector. There are also significant barriers to new market entrants, such as the high

Market-based  
competition

5

costs of establishing a business, breakdowns in law and order, high banking costs, bureaucratic red tape and corruption, all of which interfere with the functions of a free market. The government's own Investment Promotion Authority (IPA) is jokingly nicknamed the Investment Prevention Agency by the foreign business community. The omnipresence of corrupt political leaders and an incompetent and corrupt bureaucracy often result in unfair competition by businesses that are willing to pay "facilitation money." Commissions of inquiry have found numerous instances of public tenders being awarded to companies or individuals who have bribed officials. Large and well-established companies have a significant advantage over newcomers. In recent years, there has been a trend for major companies to buy their smaller competitors; for example, the popular "Stop-N-Shop" supermarket chain was bought by CPL Group, which runs "City Pharmacy" stores inside Stop-N-Shop stores. In the period under review, market conditions have worsened as the big companies have consolidated their hold over the economy.

There is some evidence to suggest that more and more people are moving towards the informal economy because of the significant barriers to establishing a business. The World Bank's Ease of Doing Business Index (2008-2012) ranks PNG 104 out of 185 countries.

Although there is a formal office of Independent Consumer and Competition Commission (ICCC) in place to regulate against monopolistic behavior, the small size of the PNG economy and historical circumstances have ensured that some of the larger companies continue to operate as oligarchies and monopolies. For example, the state-owned enterprises PNG Power (electricity), Telikom and Eda Ranu (water utility) hold virtual monopolies in their respective sectors. Many of these large companies have strong political connections to protect their position. In the financial sector, three banks, Bank South Pacific (BSP), ANZ Bank and Westpac PNG, control more than 90% of the financial market. BSP alone controls at least half. The present ICCC was based largely on the Australian framework, with its emphasis on promoting competition and fair trading and regulating national infrastructure to make markets work for all consumers.

Anti-monopoly  
policy  
5

The government encourages foreign trade, especially with those states participating in the Melanesian Spearhead Group (MSG) Preferential Trade Agreement (PTA), which includes Vanuatu, Papua New Guinea, the Solomon Islands and, recently, Fiji. However, bureaucratic red tape and the high cost of transportation between the island states constitute significant barriers to free trade and foreign investment. In practice, this means large and well-established companies have a distinct advantage over new entrants and small companies. Despite its public pronouncements, the country is not foreign-investor friendly. A maze of regulations and paperwork must be navigated before a foreign enterprise can start operations in Papua New Guinea. The Investment Promotions Authority (IPA), supposedly a "one-stop" center for foreign businessmen, is often criticized for slow procedures that actually prevent

Liberalization of  
foreign trade  
6

investments. However, one must not overlook the fact that the country's topography – particularly that of the island of New Guinea – is among the most rugged in the world. This means that the cost of building and maintaining infrastructure is extremely high, and the capital of Port Moresby is relatively isolated from the rest of the country, accessible primarily by air and sea. All of this must be factored into the high cost of doing business in PNG. The small size of the economy (In 2009, PNG's share of world total GDP, adjusted by Purchasing Power Parity, was 0.02%) is also another factor impeding foreign trade. In the period under review, there were some positive developments. For example, PNG removed duties on most of the products listed on PNG's negative list in 2012, ahead of the timeframe prescribed in the MSG trade agreement. In May 2011, PNG ratified the EU-PNG-Fiji Interim Partnership Agreement. PNG has also started negotiations on the Trans-Pacific Partnership (TPP), which will allow free trade across member states. The TPP is important given that some of the TPP member countries, such as Japan, Malaysia, Singapore, Australia and New Zealand, are PNG's major trading partners and key investors. Once PNG joins the TPP, it will be tariff-free for all trade between TPP members.

The banking system is sound on the whole. The central bank, the Bank of PNG, follows international standards and pursues best practices. The Governor of the Central Bank is appointed on merit and is largely free from political interference. The bank is widely seen as competent and effective. However, given that there are only four privately operated banks in the country, there is an unofficial duopoly at work in the banking system. One of the four banks, Bank South Pacific (BSP), controls more than half of the market and is the only bank with branches throughout the country. It thus holds an unofficial monopoly on rural banking. BSP is also arguably the only bank willing to take on the risks involved with investing in rural areas, particularly where banking is exposed to criminal activities. The other three banks, Australia New Zealand Bank (ANZ), Westpac PNG and Maybank Papua New Guinea, concentrate mostly on business clients and can be found only in the country's urban centers. Banks in Papua New Guinea are inefficient. For example, local checks require three working days to clear. Most businesses still prefer cash. Internet-banking facilities are only available to a few. In 2011, the non-performing loans ratio increased to 2.5% in September 2011 from 2.0% in September 2010, mainly due to non-performing loans related to one large enterprise. With only 19 companies listed (previously it had 21), the Port Moresby Stock Exchange (POMSOX) is small, and all of its key counters have dual listings on the Australian Stock Exchange (ASX). Market liquidity is a real problem, with a limited number of local players and international players preferring to buy via ASX. There are no restrictions on foreign capital entering and exiting the POMSOX. Many of the large players use the dual listing to move money to Australia.

Banking system

5



## 8 | Currency and Price Stability

During the period under review, the Bank of Papua New Guinea maintained a tight monetary policy primarily aimed at curbing inflation and maintaining stability in the exchange rate, as well as the macroeconomic environment. Inflation hovered at 8.7% in 2011 and is expected to be about 9% in 2012. The central bank is independent of the government, although the majority of its board members, including the central bank governor, are appointed by the government. It has a conservative history when it comes to monetary and fiscal policy. The kina appreciated to near 2 kina per USD by March 2012, 9% stronger than in September 2011 and 25% stronger than a year earlier. The ongoing construction of the PNG-LNG project continued to be the major factor driving PNG's economic expansion. The \$15.7 billion investment is on schedule and the first gas delivery is expected in late 2014. The LNG project, which started in 2010, will pump millions into the local economy and generate business opportunities across the economy. There are no major problems with remitting money into and out of PNG, although amounts greater than PGK 500,000 require clearance from the central bank. This is a vast improvement on the previous system in which all remittances required central bank clearance.

Anti-inflation /  
forex policy  
8

The government and central bank policy of macrostability is aimed at attracting foreign investors and maintaining stable prices. The central bank's independence has been crucial to achieving these goals. Public debt is estimated to be 25% of GDP in 2011 and 2012. In 2012, the budget deficit was slightly less than 3% of GDP. Because of the PNG-LNG pipeline, there is confidence in the government's coffers.

Macrostability  
6

One important feature of the PNG budgetary process is the lack of monitoring. More often than not, ministers and members of the governing party are expected to bring development funding to their home areas, regardless of the area's economic potential. In many ministries, off-budget items are paid through "special purpose accounts" (SPA). In some instances, these accounts contain millions of kina for discretionary spending by the minister and are not subject to auditing. The government is also prone to overspend during elections in order to buy support, and money was given out directly to members of parliament for the 2012 national elections.

## 9 | Private Property

Property rights are well-defined legally. However, a generally weak bureaucracy and the state's weak monopoly on the use of force also mean that in some areas – especially the more remote highland territories, where there are no functioning public institutions – legal property rights cannot be enforced by courts or state authorities. Corruption has been rampant for many years in the Department of Lands, which has resulted in a lot of prime land in the nation's capital and other urban centers being

Property rights  
6

taken over by individuals (including former members of parliament) with connections to the government and big companies, some of them foreign-owned. The O’Neill government has told Parliament that the Somare government embarked on a SABL (special agriculture and business leases) program, which reportedly saw corporations take over 5 million hectares (approx. 11% of PNG’s total land area) of customary land.

Private companies constitute the backbone of the economy, but major utilities are run by state-owned companies such as Eda Ranu (water supply), PNG Power (electricity) and Telikom (communications), which hold a virtual monopoly in their respective sectors. Some private companies, such the rice importer Trukai, also hold virtual monopoly power in their sectors. Private companies are viewed as engines of growth and are given legal safeguards. The privatization of state companies often suffers from political interests. State-owned enterprises in PNG have powerful trade unions. Many of the country’s current political leaders were involved in creating these businesses and are inclined to argue for their continued preservation, regardless of their performance. The national airline, Air Niugini, is one such example of an enterprise that has received economic and political support despite losing money consistently. In the period under review, many new private businesses were established to service the PNG-LNG pipeline project. Many of these new enterprises will bring new competition to a largely closed market.

Private enterprise

6

## 10 | Welfare Regime

Traditional/cultural safety nets still exist. However, the tradition is practiced more often in rural areas than in urban areas, where the costs of living sometimes strain the fibers of such safety nets. The cultural norms involved in various social groupings – including nuclear/extended families, clans and wantok (a pidgin term, literally “one talk”) – require that weaker members be looked after by these social safety networks. All official programs helping those in need are undertaken by NGOs funded from foreign sources, rather than the government. The Australian government’s overseas development aid program, AusAid, plays a major role in poverty and rural health programs in PNG. Broad segments of the population do not have access to proper health care, clean water or electricity. Major hospitals around the country are routinely shut down or are forced to scale back services because they have not received their budget allocations on time. Hospital shutdowns due to unpaid staff or unpaid electricity and water bills are not uncommon. Many hospitals rely on foreign aid to fund equipment and medicine. In the period under review, three major hospitals (Tari, Madang & Port Moresby) experienced temporary shutdowns. Working adults in full-time employment are required to pay into a provident fund that is based on regular contributions from both the employee and employer. The government has passed laws to allow private provident funds to be established after money in the

Social safety nets

3

national provident fund (NPF) was stolen by politicians. However it is acknowledged that the money saved in the provident funds will not be enough to provide for retirement pensions.

Although there are equal opportunity laws, large sections of the population face open discrimination. Women in particular are discriminated against in all strata of society. Their access to education, medical care, employment opportunities and public office are limited, and women are rarely protected from domestic abuse. It has been estimated that only about half of eligible female students actually attend high school. The national literacy rate is only about 60%. In the political arena, where women's participation is marginal, women suffer widespread discrimination and generally find it difficult to win elections. However, in the 2012 national elections, three female members of parliament were elected, up from only one female member of parliament in the previous 2007 election. A proposed law to reserve one provincial seat for women was rejected in 2010 along with the suggestion that a quota for female members of parliament be allocated. Cultural discrimination against women in parts of PNG is based on conservative beliefs, which hold that men are born to lead and that women should look after the family and the household. In the highlands, where such beliefs are deeply rooted in the cultural environment, women in remote communities are subject to extreme social control. However, this set of beliefs is also prevalent among the educated ruling elite, and it is common to hear of members of parliament and other senior officials who have beaten their wives. While several ministers have been openly accused of domestic violence, most of these reports are not investigated by the police. Indeed, domestic violence is widespread. According to a national survey conducted by the PNG Law Reform Commission, 67% of rural women and 56% of urban women have been victims of some form of sexual harassment or assault. Poverty contributes to gender discrimination, since parents are more willing to spend limited resources on educating males rather than females.

Equal opportunity  
4

## 11 | Economic Performance

The economy proved fairly resilient in the period under review, largely due to the confidence created by the construction of the \$15 billion LNG pipeline. When the LNG comes on line, it is expected to contribute an additional 20% to the country's GDP. Following several years of contraction, the PNG economy has been growing since 2003. GDP growth was 8.9% in 2011 and approximately 9% in 2012, boosted by rising commodity prices and growth in domestic demand, coupled with acceleration in investment in the LNG and several mining projects.

Output strength  
7

During the period under review, all sectors of the economy grew, led by the building and construction, manufacturing, mining and quarrying, commerce, financial/business/other services and transportation/storage/communication sectors,

while the petroleum sector is projected to fall due to the decline in reserves and production.

Employment in the private non-mining formal sector increased by approximately 2.9% in 2012. However, real unemployment remains high and is estimated to involve about 50% of the working population. The GDP per capita in 2012 is estimated to be \$2,700, a slight increase from \$2,600 in 2011. The World Bank estimated that for the period 2008 – 2012, FDI contracted by 2.4% as a percentage of the GDP. The Asian Development Bank estimates that less than 10% of the working age population is currently able to earn a wage in the formal economy. These constraints, combined with rising firm profitability, have led to a dramatic outflow of investment funds from PNG over the last decade. For example, PNG's investment in Australia reached \$1.2 billion (equal to 12.8% of GDP) in 2010 – 350% higher than the amount of money invested by Australian companies in PNG. Three main factors contribute to PNG's low revenue base. First, only five percent of the population is engaged in formal private sector employment, which leads to a very narrow tax base. Second, as a result of tax concessions and other incentives, the average tax on PNG's mining, oil and gas companies is low compared with other countries. The Ramu nickel and cobalt mine has a ten year tax holiday and this sort of arrangement can be found in other sectors.

## 12 | Sustainability

Although there are strict laws on environmental protection, environmentally compatible growth receives almost no consideration. Many in the government believe that rapid growth requires compromises in environmental protection and quality. There is a Department of Environment (DOE), but its work is often compromised by more powerful ministries, such as trade and industry. For years, NGOs have documented the failure of the forestry authority to apply its own logging regulations in PNG. The government's Office of Climate Change and Environmental Sustainability (OCCES) within the Department of Environment and Conservation was paralyzed when its director was caught trying to sell non-existent carbon credit on the international markets. Environmental protection is also compromised by greed and corruption, which frequently leads to the violation of existing regulations.

An example of this is the \$1.5-billion Ramu nickel/cobalt project, which daily dumps 14,000 tons of toxic waste into the Bismarck Sea. It was shut down in April 2012 by the Minister of Environment and Conservation but in December 2012, Prime Minister Peter O'Neill officially re-opened the plant.

There are four state universities and several private tertiary institutions, but they all underperform academically. Many of the state universities are persistently underfunded, and academic staff regularly strike over unpaid salaries and poor working conditions. Discipline among students is also a worry. During the period

Environmental  
policy  
4

Education policy /  
R&D  
3

under review, there were major student disruptions at three institutions, the University of Papua New Guinea, the University of Technology (Unitech) and the University of Goroka. There were also tribal fights and shootings on campus during the period under review. The vice-chancellor of Unitech was forcibly removed from the country after a dispute with the University Council while UPNG has debts amounting to K66.5million. The former vice-chancellor of Unitech is under investigation for fraud.

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

A high profile report involving former PNG Prime Minister Sir Rabbie Namaliu and Professor Ross Garnaut of the Australian National University was published in 2010. The report recommended significant increases in funding and staff numbers at PNG universities. The report's recommendations have not been implemented and are not likely to be implemented in the foreseeable future.

# Transformation Management

## I. Level of Difficulty

The structural constraints on governance are massive. There are low levels of trust between government agencies, frequent changes among ministers, and the government bureaucracy itself is heavily politicized, inefficient and corrupt. Other constraints that have taken their toll on the country include: low education levels, a lack of infrastructure, a small and underperforming economy, aid dependency and ethnic conflicts. PNG is experiencing rapid, sustained population growth of about 2.7% annually, and it has the highest rate of reported AIDS/HIV cases in the region. Approximately 0.92% of the adult population in Papua New Guinea was living with HIV in 2009 (latest figure). This figure is likely to be higher now. While some experts consider PNG to be a weak state, it is important to bear in mind that the modern state system has been superimposed on thousands of tribal groups across not only vast regions of rugged terrain, but hundreds of islands as well, with dramatic logistical difficulties for government and governance. In the period under review, the 2012 national elections showed just how difficult it is simply to organize a general election. The general election could only go ahead when Australia, PNG's biggest donor and immediate neighbor, decided to take a direct approach and provided equipment such as helicopters and funds to run the election. Without Australian help, the general election may not have been held on time.

Structural  
constraints  
8

In a traditionally based society like PNG, it is a challenge to build social cohesion amidst social dilemmas. In general, civil society traditions are weak and mostly concentrated in urban areas where most of the educated population lives. The challenge for NGOs and CSOs can be viewed against what the churches have achieved, particularly since the 1950s. While churches instilled alternate faith systems, and have sustained international financial backing, most NGOs/CSOs face the following challenges: (a) they compete with whatever traditions society instills in people; and (b) many NGOs/CSOs do not enjoy sufficient funding over time. Furthermore, NGOs/CSOs are viewed with caution given that their activities quite often are viewed as anti-development, anti-progress, anti-government etc. Unless the people in question have issues with the government or elected national leaders in that specific locality, it is difficult to see ordinary people being inspired by a general issue just because an NGO/CSO is promoting it.

Civil society  
traditions  
6

PNG society and its political elite are deeply split along the lines of social class, and tribal and regional groups. Rent-seeking behavior inside the public bureaucracy is rampant. The formation of the PNG government by Peter O’Neill after the elections saw an open display of these divisions when the “highlands bloc” repeatedly demanded senior cabinet posts because O’Neill comes from the Southern Highlands. The previous Somare administration was repeatedly accused of favoring Sepiks (Somare is a Sepik) when appointing senior public servants while O’Neill is often accused of marginalizing Sepiks. There is some tension among Christians and Muslims in PNG when it was revealed in 2012 that there were more than 5,000 converts to Islam in the country.

Conflict intensity  
7

## II. Management Performance

### 14 | Steering Capability

The political leadership tries to pursue long-term aims, but often postpones them in favor of short-term political benefits. Although the government regularly commits itself to five-year development plans, it does not have the capacity to carry them through. Weak institutional efficacy, a poorly functioning bureaucracy and the lamentable state of political parties exacerbate problems with coherent planning and policy prioritization. With the turnover rate of members of parliament at more than 50% over the last four elections, it is clear to see why priorities are often planned for five years (i.e., the electoral cycle), so that members of parliament can do what they can to stand a better chance of re-election.

Question  
Score

Prioritization  
6

The new O’Neill government adopted two broad policies. First, increasing the proportion of citizens who participate in and benefit from the resource economies. Second, upgrading PNG’s national infrastructure and increasing productivity. Both goals depend considerably upon PNG’s economic relationship with Asia and Australia. PNG needs long-term investment and trade with Asia and Australia in order to create jobs and wealth.

The government regularly fails to implement most of its stated reform goals. The biggest problem for elected representatives is that they are chosen for each five-year parliamentary term by voters who expect them to deliver basic services directly to them. Given that the state system, through the public service, has been increasingly weakened for a plethora of reasons over time, the parliamentarians see it in their ambit to deliver services directly to the people. This forges a strong reciprocal relationship between members of parliament and voters in all regions of the country. Many of the latest laws and policies have been skewed towards service delivery by

Implementation  
4

members of parliament. Another major problem for the implementation of reforms is that senior politicians interfere regularly in civil service operations. Senior public servants often give conflicting orders to those given by regional governors. Most reforms are initiated by the prime minister's office but are often not implemented due to an inefficient civil service that is particularly weak outside major urban areas. A survey undertaken a few years ago revealed that more than two-thirds of cabinet decisions were either not carried out or were not carried out in full by the civil service. Reforms undertaken to make the civil service more effective have also failed in recent years. Despite various attempts at strengthening capacity such as the "Strongim Gavman" Program (SGP), which is Tok Pisin for "strengthening" or "empowering" government, and which involved using nearly 40 Australian officials as key advisors in the PNG bureaucracy, nothing has worked. In August 2011, the O'Neill government created an "Investigation Task Force Sweep" (ITFS). Its mandate was to investigate allegations of corruption and mismanagement in the Department of National Planning and Monitoring in the first instance and was expanded to include investigating allegations of corruption in other government departments. In October 2012, ITFS chief Sam Koim concluded that almost half of PNG's PGK7.6 billion development budget for the period 2009 to 2011 had been lost through corruption, misappropriation and mismanagement. In May 2012, the ITFS final report stated that the level of corruption in Papua New Guinea had "migrated from a sporadic to a systematic and now an institutionalized form of corruption." It is unlikely that the O'Neill government, after only one year in power, has the capacity to reform the system.

Although policies are reviewed on a regular basis and reports undertaken, there is no real change or learning from past mistakes. The political leadership will respond with proposed changes to failed policies, but more often than not, policies remain stuck in the same routines. There is no political will to correct past mistakes as the core issue is usually corruption and fraud. The leadership is also more prone to adopt policies that offer little or no threat to them in their present positions.

Policy learning

5

## 15 | Resource Efficiency

The central government uses only some of the available resources efficiently. Political expediency and interference means that public resources are wasted. In the provinces, the situation is even worse as many provincial governors treat the state (through their standing/authority in their respective provinces) as their personal fiefdom. Provincial governments, and to a lesser extent, the central government, are plagued by the mismanagement of funds, the dismissal of senior staff and "nepotistic" or wantok-based appointments. The problem is compounded by a lack of centralized monitoring for the provinces. In the highlands, for example, governors have an almost free hand to do what they want. What they want to do is to reward

Efficient use of assets

4



their political supporters and to use state assets to get re-elected. Thus the entire government machinery is used to mobilize political support rather than develop the province.

The O'Neill government banned ministers and other government officials from travelling overseas for work in late 2012 to save money but within weeks of the ban, ministers were already travelling on "official business".

The central government tries to coordinate policy-making through the Central Agencies Coordination Committee (CACC). However, ministers and senior politicians often interfere with the process by giving conflicting instructions. A key problem is the faulty Organic Law on Provincial Governments and Local-level Governments. The frontline offices of agencies and national departments are not aligned throughout the three levels of government, making coordination difficult and cumbersome even in a centralized system of government. A weak, inefficient and corrupt civil service adds to the difficulty of policy coordination. The low quality of data available for policy-making is a related problem. The department of planning and monitoring often relies on statistics that are suspected to be flawed, incomplete and inaccurate.

Policy  
coordination  
4

Corruption is systemic and systematic. The previous prime minister, Michael Somare, has been accused of owning several properties with corrupt money in Queensland, Australia, while the current prime minister, Peter O'Neill, is described in a WikiLeaks cable as "quite corrupt. He'll be interested in just one thing – money." The Ombudsman Commission conducts investigations of political leaders suspected of corruption, but once a politician resigns, the commission can no longer legally investigate the case. At present it is seriously understaffed and has been underfunded for many years. While the commission keeps its door open to assist members of parliament in any way, there is a history of mistrust between these two sides that goes back three decades. It is believed that the commission is purposely underfunded to weaken and curtail its work.

Anti-corruption  
policy  
3

## 16 | Consensus-Building

All major political actors agree on the goals of building a market-based economy and liberal democracy. This consensus is shared by the population as well. Many feel that a market-based economy is the only viable option for the country's future. However, given the deficits observed in managing the democratic process and the transformation to a market economy, this consensus remains unattainable until the issue of high-level corruption is dealt with. This pattern is consistent with many countries in Melanesia. Neighboring countries such as the Solomon Islands suffer from the same problem. The key issues always come back to high level corruption.

Consensus on goals  
8

Reformers cannot prevent all of the powerful anti-democratic actors, such as tribal groups and regional political leaders, from seeking control of the state, but they can at least limit these groups from exercising their power. The basic cleavage between the highlanders and people living in the lowlands or coastal areas has dominated political conflicts since independence. Their mutual attempts to dominate the political process have not resulted in either side successfully controlling the state for any long period. General elections are held every five years ensuring a turnover of political leaders. The constant change in government and repeated shifts in cabinet members ensure that anti-democratic forces are held in check. It should be noted here that anti-democratic actors in PNG are mostly rent-seekers and opportunists rather than those who wish to replace liberal democracy with an authoritarian system. Furthermore, the coast-highlands divide was much more pronounced in the past.

Anti-democratic  
actors

5

The political leadership does not seek to reduce existing divisions or prevent conflicts from escalating. Clan, tribal and regional loyalties form the basis of their political support. Moreover, there is a low level of trust between groups hence it is almost impossible to reduce existing divisions. Tribal wars and other acts of violence, especially in the highlands, occur on a regular basis. In some cases, political leaders encourage the cleavages in order to secure political power. For example, it is common for politicians to form regional “blocs,” such as the island bloc, highlands bloc etc., to negotiate cabinet positions. This was exactly what happened after the June/July 2012 national elections.

Cleavage /  
conflict  
management

5

The allocation of ministries to regions has been a practice since the pre-independence years. It has been common for members of parliament to allude to regional groupings in recent times only when there were reshuffles in cabinet and some members reacted negatively to them, or when there was a need for more say by one region (over others) in line with the significance of activities in one region. For example, Leo Dion, from East New Britain Province, was appointed deputy prime minister, precisely because he was from the islands region. This was despite the fact that his party had only three members of parliament. The party with the second largest number of members of parliament in government was unable to secure the post of deputy prime minister because its leader came from the highlands. With the prime minister, Peter O’Neill, hailing from the Southern Highlands Province, it would have been politically unwise to appoint a deputy from another highlands province.

The political leadership frequently ignores civil society organizations (CSOs), seeing them as political rivals and anti-growth elements. More often than not, the government formulates its policy autonomously and secretly, especially when it comes to controversial policies. Examples of the government ignoring CSOs include its policies relating to logging and deforestation, and those relating to environmental protection and pollution control. The fact that many CSO leaders regularly run in elections compounds the problem, as it nurtures the widely held view that CSOs are just political parties in all but name. Some example of CSO candidates in the 2012

Civil society  
participation

4

general elections: Kenn Mondiai (former chairman of NGO PNG Ecoforestry Forum) and Dorothy Tekwie (from the environment movement) and Janet Sape (Women in Bisnis Faundesen – Women In Business Foundation).

The political leadership recognizes the need to deal with historical acts of injustice, but the process of reconciliation often fails. Land compensation claims constitute a prime example of a historical act of injustice. During the colonial administration, all land not issued with a title became state land. After independence, land with titles constituted less than 7% of all available land in PNG. This has led to numerous conflicts and tribal wars in which people have died fighting over land rights and compensation claims from the government. Because land ownership is such a sensitive issue, no government since independence has made any serious attempt to survey the land and issue titles. The only success observed in addressing a historical act of injustice in PNG is the reconciliation process that has taken place between the central government and the people of Bougainville. After more than a decade of civil war, the central government permitted an autonomous Bougainville government (ABG) to be established on the island in an attempt at reconciliation. However, the process is under strain as both sides distrust each other.

Reconciliation  
n/a

## 17 | International Cooperation

Since independence, PNG has cooperated with and received extensive help from several international bodies. Among the major players helping PNG develop are the UNDP, ADB, IMF, World Bank and AusAid. PNG receives one of the highest per capita levels of aid money in the world. PNG is also an active member of the South Pacific Forum and plays a leading role in the African, Caribbean and Pacific states (ACP countries) pact with the European Union. However, PNG's record of putting aid to effective use is mixed at best. Many aid programs have failed, and corruption has also had a severe effect. A 2010 report commissioned by the PNG and Australian government, the Review of the PNG-Australia Development Cooperation Treaty, stated that "there is widespread dissatisfaction with the aid program in both Papua New Guinea and in Australia [...] There is a perceived lack of impact, and failure to obtain value-for-money [...] they also reflect a growing body of evidence which strongly suggests that substantial change is needed." There are many cases in which foreign aid money has gone unused because the bureaucracy has been unable to comply with the paperwork.

Effective use of  
support  
6

PNG's international reputation is mixed in the international arena. Many countries see PNG as a weak state and therefore they do not have high expectations. They know that successive governments in Port Moresby have had limited capacity. This is very obvious in border control. It is common knowledge that PNG cannot control or watch its borders with both Indonesia and Australia. PNG has been used in the period under review as a transit point for people and drug smuggling. Many governments hold the

Credibility  
5

view that PNG cannot be a reliable partner in promoting democracy and the market until it resolves its governance and corruption issues.

The government actively cooperates with neighboring states and complies with the rules set by regional and international organizations as best it can. It takes part in all major international meetings. It is the unofficial leader of the Melanesian group of countries. In the period under review, Prime Minister O'Neill has said that PNG will play a bigger role in the South Pacific. PNG has agreed to let Manus Island be one of the off-shore detention centers for those seeking asylum in Australia. The camp was initially established in 2001 but was closed in 2008. The Australian government has announced that it will reopen the camp in 2013. O'Neill wants a permanent camp established in Manus giving that it will bring in millions of kina each year.

Regional  
cooperation

7

## Strategic Outlook

During the past two years, Papua New Guinea made some progress on the economic front, but this was due more to the construction of the LNG project, the Ramu nickel mine and high oil and commodity prices than to internal factors. The construction boom saw money flowing into the country. Although there was political instability caused by Parliament voting out Somare as prime minister and the subsequent 2012 national elections, by the end of 2012 it was clear that the new Peter O'Neill government was here to stay, for the short term, at least.

In the short term, the biggest challenges facing the country are the need to stabilize its politics and economy and maintain consistent growth. The key to PNG's long-term economic prosperity remains the LNG project. The government's handling of the construction phase in the face of strong landowner disputes and overlapping claims of compensation remains a key challenge. The other key challenge is to ensure that revenue generated from the LNG project is used to cement long-term benefits, such as infrastructure development rather than spending on consumables. The government is moving to establish a sovereign wealth fund for this purpose.

In order to mitigate the challenges, the government should concentrate on ensuring private sector expansion and on reforming the bureaucracy to make it more efficient and private-sector friendly. The government must improve the quality of public expenditure so that public funds spent through the national budget create tangible development, especially in the area of infrastructure. The government must also take some concerted action to combat high-level corruption and to secure its monopoly on the use of force throughout the country. The government must undertake real reforms in order to reduce the cost of doing business in the country and open up the economy to foreign investors.