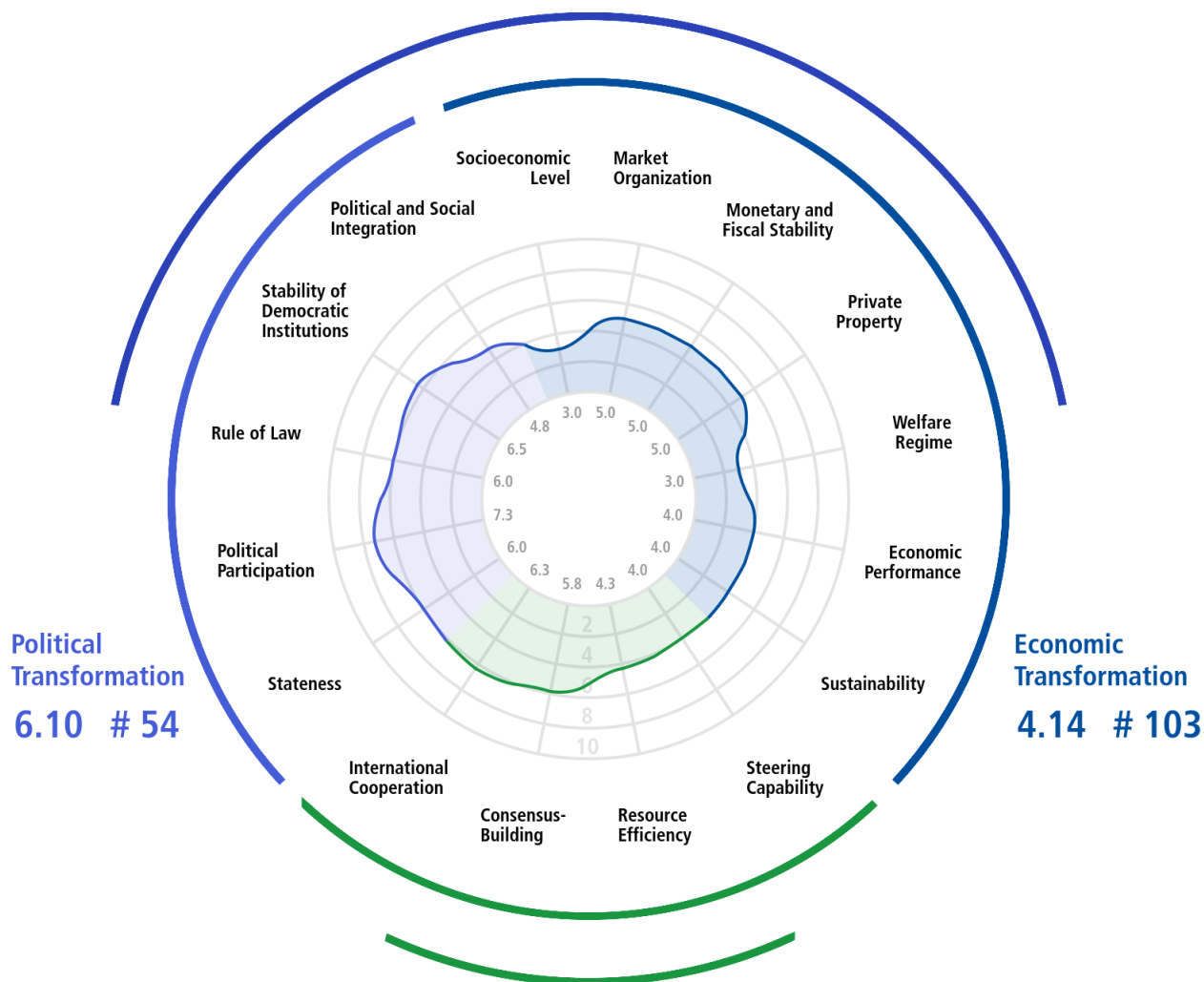


Papua New Guinea

Status Index

5.12 # 69

on 1-10 scale out of 137



Governance Index

4.74 # 74

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	8.9	HDI	0.555	GDP p.c., PPP \$	4326
Pop. growth ¹	% p.a.	1.9	HDI rank of 189	155	Gini Index	41.9
Life expectancy	years	64.5	UN Education Index	0.439	Poverty ³	% 65.6
Urban population	%	13.3	Gender inequality ²	0.725	Aid per capita \$	76.0

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The 2010s commenced with high expectations around predicted profits from the Papua New Guinea liquified natural gas (PNG LNG) project, a \$19 billion resource development program centered on gas production and processing facilities. As a response, public sector spending rose significantly. Budget deficits persisted, due to major budget overruns beginning in 2018, as well as weak expenditure control. However, the government has been more transparent in recording and presenting the full public debt. In addition, the government has also initiated some governance reforms.

In addition, major expenditures were long overdue on improving the state of public infrastructure, the education system and health services. However, expenditure control and oversight remained weak due to politicized constituency grants. Costly status projects and equity acquisitions increased the country's deficit and debt levels. A series of controversies involving the government, such as exorbitant land acquisitions and project licensing, increased tensions. Prime Minister Peter O'Neill resigned due to allegations of corruption and was replaced by James Marape on May 30, 2019.

The new government's stance is based on the mantra of making Papua New Guinea (PNG) the "richest black Christian nation" in the world, taking back control and benefits. However, during much of 2019, new resource legislation and a sustained shortage of foreign exchange caused great uncertainty with regard to foreign investments. In addition, low returns from foreign investments demonstrated the need for an increased focus on domestic expenditure in order to realize an economic recovery. As a result, the "taking back" attitude of the government was heavily criticized. Instead, an emphasis should have been put on the stimulation of investment, economy and jobs, especially since most foreign-owned businesses have employed non-Papua New Guineans, pay no taxes, pay minimum wages and are not always bound to local law.

In sum, 2020 was a devastating year for the PNG economy and its public finances, although the country was only mildly affected by COVID-19. This was partly due to the early closure of international borders. PNG was able to offset some of its financial losses due to competitive prices for gold and crop exports, including coffee and cocoa. The collapse of the international tourism and the wider hospitality industry had less overall economic impact in PNG, but nevertheless led to extensive job losses. The collapse of oil, gas, vegetable oil and copper prices, on the other hand, negatively affected PNG's export revenues.

On top of its financial hardships, PNG has a lack of social protection mechanisms. During the pandemic, successive brief lockdowns occurred in 2020. However, no preventive mechanisms were available to cushion the hardships suffered by the population and businesses. As a response, the government introduced an economic stimulus plan at the start of April 2020, which was formalized into a supplementary budget in September of the same year. However, with a severe loss of revenue and a strong dependence on domestic and international funding, the government relied heavily on retirement funds and banks to issue relief for (formal sector) employees and businesses.

History and Characteristics of Transformation

Before and during colonial rule, Papua New Guinea was comprised of largely autonomous local communities. A small, educated elite, together with some communities, pushed for the independence achieved in 1975, a situation that the country was largely ill-prepared to manage. As a result, many of the communities spread across the country continued to have little contact with the government.

In the first decade after independence, the country introduced parliamentary democracy and an open economy, which was facilitated by considerable financial support from its former colonial power, Australia, the World Bank and the Asian Development Bank (ADB). Although there had been extensive mining during the colonial era, livelihoods and the cash economy were dominated by agricultural production. By 1984, mineral exports overtook agriculture as the major export earner, although agriculture continued to contribute the most to GDP. Agriculture continues to be the country's primary source of income as well as formal and informal employment.

Economic downturns soon turned to increasing law and order problems throughout the 1980s. In 1989, an armed insurrection shut down the island of Bougainville, unleashing a civil war which, in turn, led to growing social and economic disturbances not only in Bougainville but across the country. A peace agreement reached in 2001 finally brought a formal end to the Bougainville conflict by granting the island autonomy. A referendum was held in December 2019 on the question of independence, though to date, no specific date for independence has been determined as the national parliament continues to oversee the process.

Increasing corruption, the growing frequency of “big man” politics and a deterioration of law and order have resulted in worsening governance and quality of life for the country’s citizens. One major issue in developing mechanisms to provide greater political stability and adherence to policy platforms has been the nature of governments since independence. So far, all governments have been coalition governments comprised of several political parties and independent members who invariably change their political allegiances for pragmatic reasons. As a result, an Organic Law on the Integrity of Political Parties and Candidates (OLIPPAC) was passed in 2001 as an attempt to restrain this kind of “party-hopping,” but it was subsequently deemed partially unconstitutional and proved largely ineffective.

The governments of Sir Michael Somare (2002-2011) and Peter O’Neill (2012-2019) saw an increased dominance of the executive over the legislative, which many have criticized as a threat to the country’s parliamentary democracy. Both terms in office also concluded with a rebellion by parliamentarians who considered the government to be controlled by a small elite. Both times, the process of overturning a sitting government significantly increased the risk of generating wider social disruption and potential new conflicts areas.

The country remains relatively rich in natural resources, namely hydrocarbons. However, poor economic management and accountability, a low tax base, excessive diversion of funds, poorly negotiated and opaque resource agreements, disruptions in law and order, a lack of basic infrastructure, deficient investment in human capital and high population growth have all undermined the expected growth in living standards. In additions, service provisions have been marginal. This becomes particular apparent during times of crisis. When COVID-19 hit the country, relief mechanisms were unavailable due to a lack of formal welfare politics. Instead, the government relied on additional funding via the politically controlled constituency grant mechanisms.

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

Transformation Status

I. Political Transformation

1 | Stateness

Militant landowner groups, tribes, clans and criminal gangs in different parts of the country perpetually challenge the state's monopoly on the use of force. In 2019, for example, soldiers were killed when they were caught in the crossfire between clan members and the police in the Hela province. Criminal gangs usually operate along some highways and in several coastal and island provinces. In addition, piracy has been on the rise. The province of Milne Bay has suffered ongoing criminal gang activity, which includes local businesses being raided and, on occasion, gangs taking control of Alotau, Milne's provincial capital. In addition, there have been reports of gang members harassing and torturing those accused of practicing sorcery. Unfortunately, the police is too weakly institutionalized to combat gang criminality.

Private security firms also challenge the state's monopoly on the use of force as they employ significantly more members than the state's security services. Some firms are owned by powerful local leaders, including politicians, and a few are local subsidiaries of international security firms, such as G4S and the Corps. Occasionally conflicts over state contracts will break out between these private security firms. As some firms are considered more disciplined than the state's own forces, they, to some extent, complement certain police operations as they are able to provide more resources than the state. Private security firms are meant to be monitored by the Security Industry Authority, chaired by the police commissioner and representatives of companies and civil society; however, the Authority has only been partially operational in recent years.

Question
Score

Monopoly on the
use of force

4

'06 '22 10



1

Papua New Guineans – with the exception of most of the population of Bougainville – accept the nation-state of PNG as legitimate with clearly defined territories. In December 2019, Bougainville held a referendum in which the majority voted in favor of independence. However, the loyalties of the Papua New Guineans generally remain with their primary kin groups, which provide the most effective physical, social, economic and emotional security. They tend to think of themselves first as members of their clans, language groups, provinces, regions and only afterwards as Papua New Guineans. The levels of loyalties have been steadily declining in that order. Sport, urbanization and an increase in marriage and relationships between the clans and provinces, including growing numbers of people with mixed heritages, are to some extent breaking down traditional local and ethnic divisions.

Access to citizenship is open, with indigenous Papua New Guineans automatically becoming citizens upon birth, and naturalization available, as either unique citizenship or dual citizenship, to foreigners who qualify on the basis of long-term residency, level of investment and other associated criteria. People holding dual citizenship, however, are subject to various restrictions. They are, for example, banned from being elected to public offices or even voting in elections.

Although the state is secular, the constitution does refer to PNG as a Christian country. More than 90% of the population officially adheres to Christianity. As a response, policymakers and political parties tend to take church leaders' opinions seriously. Their impact can, for example, be seen during election campaigns with individual church members supporting specific candidates, or in political leaders' provision of funding to churches in order to gain their support in elections. In contrast to Christian denominations in Europe, specific policy issues such as family law or women's and LGBTQ+ rights are rarely addressed by churches.

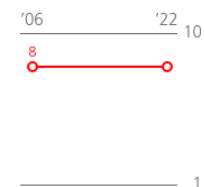
The current prime minister, James Marape, who took office in April 2019, greatly emphasizes Christianity's centrality in PNG's politics. However, the church's influence does not at the moment pose a problem to the secular order of the state, as religious groups tend to operate in a manner similar to that of other interest groups in the political arena. In sum, the political process still remains secular and the freedom of religion is largely respected, but religious (Christian) leaders remain influential to this day, primarily in social issues.

After independence, administrative capacity was better developed in PNG than in some other post-colonial states in the South Pacific. However, following the increased politicization of public sector appointments and subsequent decision-making processes since the early 1980s, coupled with a lack of operational funding for the public sector, the state apparatus found it increasingly difficult to implement even basic policies.

The government's operational machinery is dilapidated in many rural areas. Part of the problem is transportation and maintenance. For instance, there are few roads to

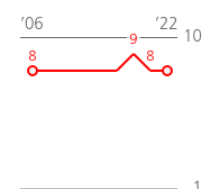
State identity

8



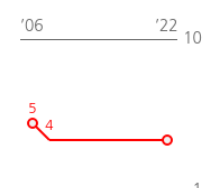
No interference of religious dogmas

8



Basic administration

4



the highlands and many other rural areas across the country, and those that exist are often impassable. As a direct consequence, the provision of many public services, such as health care, is uneven across the national territory and highly deficient outside of the vicinity of major towns and provincial capitals. Despite attempts to decentralize the administration, paired with increased funding, the state's presence at the local level remains weak. In sum, shortcomings remain largely due to the limited capacity of local governments, including high costs and logistic difficulties with reaching remote areas, the deterioration of the already weak infrastructure, poor planning, and weak accountability mechanisms. Severe budget cuts during the 2010s lead to a heavy decline in access to basic services in the highland regions and across rural areas, despite the implementation of rural airstrips.

The education sector experienced budget cuts at the end of the decade, which led to challenges in maintaining education standards. Some provinces and districts performed better than others, including those with greater access to funding and better accountability for public funds under the district grants. With extensive law and order problems in several parts of the country, the need for an improved state capacity is apparent. Some valuable programs designed to improve community level policing and village court magisterial services, functioning as a bridge between the state and the local community, are ongoing.

2 | Political Participation

General elections are held regularly every five years. Serious irregularities occur during voter registration and ballot counting, with strong indications that the 2017 election suffered from systematic manipulation of the electoral roll in some constituencies. Elections are largely conducted around local clan loyalties, rewards and personalities rather than political allegiances or political platforms. The 2017 EU Election Expert Mission identified various fundamental shortcomings and additionally noted the absence of provisions in the law to guarantee the rights of national and international observers. In addition, legal deadlines for the National Court to render its decisions regarding election petitions were largely absent. Other international election monitors indicated that the 2017 elections violated the basic principles of democracy and that, as such, the integrity of the electoral process was severely compromised. One issue stems from the dependence on provincial public servants to conduct the elections, as some of them are political appointees of the current members of parliament and thus owe the incumbent allegiance, indicating voter fraud. Administrative problems relating to a lack of quality control in recruitment and training, inadequate levels of funding, the late release of funding from the finance department, weak administrative capacity and incentives to cheat the system often result in the poor implementation of elections.

Free and fair elections

6

'06 '22 10



1

In addition, the impartiality of the newly appointed PNG Electoral Commission was called into question during the 2017 election when the electoral commissioner allegedly declared the results for the Southern Highlands regional seat before all the votes were counted. In September 2020, the electoral commissioner was suspended on various grounds, and a new commissioner appointed. However, critics have argued that no new commissioner can be appointed until a ruling has been issued and a criminal conviction handed down; the consequent lack of clarity undermines the constitutional provisions guaranteeing the Commission's independence.

Following the 2017 election, various recommendations were made to reform aspects of the election process to improve the Commission's independence, effectiveness and accountability. At the moment, the recommended reforms are still with the Attorney General's Department for tabling prior to the 2022 election. Others proposed amendments have been prepared by the Registrar of Political Parties and Candidates to improve the accountability of the political parties during the election process.

Democratically elected national political representatives have considerable power to govern, both at the national and the provincial or district levels. However, individual power groups can create their own domains and enforce special interest policies. The PNG national parliament is the legislative and supreme decision-making body in the country. Provincial governors (who are also members of the national parliament) largely control provincial bureaucracies and resources, while other members of parliament have considerable control over civil servants and resources in the districts.

The military in PNG has generally remained neutral. Likewise, the clergy has neither de facto nor de jure power to undermine democratic procedures, although it can exert considerable influence. Over the years, various priests and pastors have also stood in elections and in some cases gained and retained public office. However, large business groups and foreign companies tend to influence government policies, including the provision of tax breaks, by making campaign donations during elections and through gifting.

There are a number of private companies that engage directly with the government, political parties, candidates and members of parliament to influence public policy. One of these is the Malaysian Rimbun Hijau (RH) Group, which controls some 45% of the country's timber industry and a quarter of total timber exports, but has also diversified into diverse other businesses, including property and media.

Effective power to govern

7



The PNG constitution guarantees the freedoms of association and assembly, but from 2014 to 2019, the government became increasingly sensitive to criticism, prevented protest marches on most subjects and occasionally used excessive force against demonstrators. Although the Ombudsman Commission and the police have announced investigations into the 2016 police shooting of eight university students, no charges have been filed yet. Moreover, landowners in forest areas demonstrating over loss of their land and resources have on occasion been assaulted by “rogue” police units or other officials operating at the behest of logging companies. As a result, an inquiry dealing with accusations of corruption among public officeholders was initiated and several politicians were suspended.

Having presented itself as an anti-corruption government, the populist-leaning Marape government was generally open to criticism, public dialogue and large public gatherings, at least until the outbreak of COVID-19 and the start of the lockdown measures in April 2020. Members of the government attended the launch of various anti-corruption and governance presentations, actively responding and committing that the government would address the issues raised. Nevertheless, civil society ultimately saw a decrease in open dialogue on business and social relief measures, especially following the implementation of COVID-19 measures.

The opening preamble of the constitution specifies that, “subject to any restrictions that may be imposed on non-citizens, everyone in the country enjoys the fundamental rights and freedom of the individual,” including “freedom of conscience, of expression, of information, and of assembly and association.” Citizens, organizations and the media can express their opinions freely. However, the National Cybercrime Act (2016) gives the government the opportunity to randomly control and constrain social media activity. During the Asia-Pacific Economic Cooperation (APEC) Summit in 2018, for example, the Communications Minister threatened to shut down critical social media posts. With the new government under Marape, there appear to have been fewer threats to media freedom overall despite restrictions imposed under the COVID-19 state of emergency.

The TV and some radio media have been increasingly consolidated under the ownership of the state public broadcaster, the NBC and the state telecommunications company, Telikom PNG. In recent years, some independent channels have also emerged. Ownership of the two daily newspapers remains in the hands of (overseas-owned) private businesses. However, as with the private TV channels, corporate interests were reluctant to pursue a firmly independent line until 2018 but have seemed to feel less pressure to comply with government directives since the change of government.

The constitution specifies that detailed legislation on the freedom of information is to be issued, implying some restrictions. However, this legislative framework has yet to be introduced. A Right to Information legislation was planned to be introduced in 2020 as part of the Open Government Partnership National Action Plan 2018 – 20.

Association / assembly rights

8



1

Freedom of expression

8



1

However, faced with pandemic-related disruptions, this was put off until 2021. In the absence of this legislation, various restrictions have been applied arbitrarily by the government.

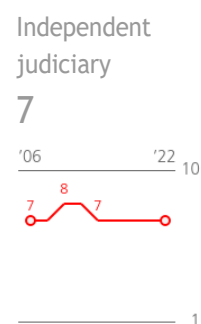
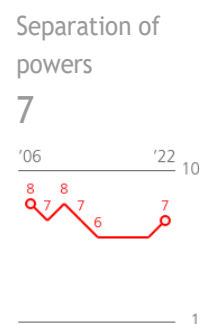
3 | Rule of Law

The separation of powers between the legislature, executive and judiciary is specified in PNG’s constitution. However, a domineering executive government over the past two decades and particularly in the 2010s increasingly rendered parliament ineffective. With the replacement of the sitting government in April 2018, a closer balance of power between government and opposition was introduced. Some of the parliamentary committees have partially been revived, and an active Committee on Public Sector Performance has been established. Today there are on occasion lively debates in the House. During the period under review, for example, a vigorous debate emerged regarding the 2021 budget. In sum, the new parliament contains a much more active opposition than in recent years.

The Supreme Court has repeatedly demonstrated its independent authority. In 2020, none of the Court’s rulings were questioned. Nonetheless, there have been smaller issues with the opposition, which made referrals to the court over matters clearly within parliament’s jurisdiction, for instance by questioning the standing orders of parliament. The clerk of parliament was a relative of the former speaker and not a qualified lawyer, considerably weakening parliament’s capacity to provide professional legal and procedural advice to the new speaker and the House generally.

In response to the COVID-19 pandemic, the Office of the Prime Minister declared a temporary state of emergency in accordance with existing laws on March 24, 2020. This was extended several times, through June 16, 2020. Parliament resumed its sessions in June and formed a permanent committee. There were concerns expressed about disproportionate constraints on the freedom of speech and the misuse of emergency funds.

The judiciary is a professional institution with a competent legal training institute and a university law school. The Law Society provides for professional standards but undertakes only limited oversight of those standards. There are clearly defined procedures for the appointment of judges and other officers of the judiciary, for appeals and for the administration of the courts. However, the (re-)appointment processes for the chief justice, judges, other constitutional office holders and the chief executive of constitutional institutions have clear flaws. This creates opportunities for undue political influence in appointments, and hence the conduct of justice. For example, the chief justice of the Supreme Court is appointed by the government’s cabinet, rather than by an impartial constitutional appointments committee.



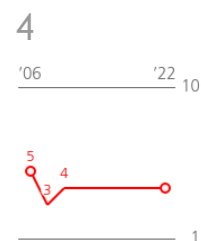
The courts are very slow in administering justice, with backlog of cases going back several years. This relates to the inadequate number of judges and magistrates, but also to antiquated systems in the courts. The Supreme Court is in the process of digitalizing cases and its system. Court papers and files often go missing, leading to long delays. Moreover, for rural areas and even many urban communities, formal justice services are considered largely inaccessible, with lawyers and facilities remote and largely unaffordable. However, there is an extensive network of village court magistrates across rural and urban areas. Although they are not equipped to handle criminal or other serious cases, they are responsible for a wide range of cases, using a process based upon traditional law and justice. At the moment, the Justice Department is undertaking an extensive program of training for the village court magistrates, appointing many more female magistrates, and providing a range of back-up support, including referral pathways for cases having to do with gender-based violence.

Corruption in PNG is systemic and systematic in the public sector. Public experience indicates that corruption has become worse over the past two decades. This is backed up by several commissions of inquiry, such as those led by the Ombudsman Commission or the Auditor-General, as well as special inquiries into finance, land and forestry matters. However, very few corruption cases end up being prosecuted.

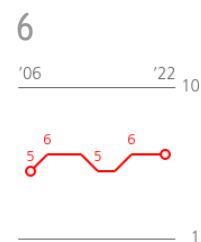
A Whistleblower Act was passed in early 2020, and in November 2020 the Organic Law on the Independent Commission Against Corruption (ICAC) was passed. This provides for an organization with independent powers to investigate and prosecute leaders and officials engaged in corrupt practices. The commission of inquiry, which looked into the UBS loan for the acquisition of oil search shares, commenced in 2020, but was delayed by COVID-19 and for logistical reasons. Other instances of office abuse have not been prosecuted. For example, a case involving the alleged corruption of former Treasurer and Forest Minister Patrick Pruitich was disregarded due to the expiration of the statute of limitations. Of the series of cases brought forward by the (former) anti-corruption task force, only one high-profile politician, Paul Tiensten, was convicted for making payouts to businessmen when he was minister for national planning. The task force was abolished by the government after Prime Minister Peter O'Neill was investigated by it.

Civil rights are prioritized in the national constitution, and codified by law, but are not properly respected or protected, and are violated by both state and non-state actors. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are in place, but are not consistently effective. There is no evidence of discrimination based on religion, ethnicity, race or political preference, but there is widespread discrimination based on gender and sexual orientation. Fear of sorcery is pervasive. Members of law enforcement services have been involved in unlawful killings and have raped tribal members and persons with disabilities.

Prosecution of office abuse



Civil rights



Constitutional guarantees of due process are poorly upheld. Arbitrary detention is relatively common. Delays in the criminal justice system contribute to lengthy pre-trial detentions. Prison conditions are poor, often unhygienic and overcrowded, while prisons themselves are understaffed. Disease outbreaks remain common.

Extensive private employment of police officers and large forces of private security guards have resulted in human rights abuses at the sites of mines, urban businesses, and particularly logging camps and operations. Police brutality is common. However, police training programs and additional units responsible for overseeing cases of family and sexual violence have been set up.

In addition, women, men and children living in rural areas are often threatened and abused. The issue of the dispossession of customary landowners of extensive areas of their land and resources under the notorious Special Agricultural and Business Leases (SABLs) was highlighted by the U.N. Human Rights Council. Despite a Commission of Inquiry highlighting the land and resource theft, the situation has not been rectified, and resource grabbing continues to occur under so-called Forest Clearance Authorities (FCAs).

4 | Stability of Democratic Institutions

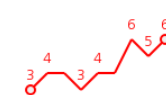
Democratic institutions are well established, but their operations have been rendered ineffective by a lack of resources and widespread corruption in the electoral process, in the formation of governments, and in the subsequent operations of the government and parliament. The parliament is dominated by a powerful executive, although in recent years there has been a closer balance in numbers between the two benches.

The growing dominance of money politics has led to a vicious cycle of corrupt leaders, resulting in continued poor governance and a lack of needed reform. This has come at the cost of the electorate's interests. Remote communities' limited access to public services, poor communications and low education levels have all contributed to a lack of voter awareness and expectations regarding the democratic process and governance. Various government functions have been transferred to the provincial and district levels without providing appropriate levels of funding. Provincial governments thus struggle to basic deliver services, although some are much better funded than others. The National Economic and Fiscal Commission (NEFC), a constitutional body with a responsibility to help equalize interprovincial revenue, indicates that a few provinces have adequate resources to deliver core (health, education, infrastructure and agricultural) services, but even those with sufficient funds spend far too much money on administration and inadequate amounts on health, education, agriculture services and transport infrastructure.

Performance of democratic institutions

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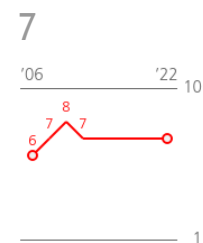
There are no relevant actors that would openly advocate against a Western-style democracy, although there is always an underlying debate as to whether the Westminster system with its current unicameral parliament is the most appropriate, or whether there should be a second house. However, PNG's political arena is rampant with private opportunism. Political scientist Henry Okole has explained that "spoils" or largesse is the main attraction for everyone. Opportunistic actions – from party endorsements of multiple candidates to party-hopping in parliament – directly contribute to the fluid nature of the PNG party system and the instability of government coalitions. It was only after the adoption of the Organic Law on Integrity of Political Parties and Candidates (OLIPPAC) in 2002, and in particular the creation of the Integrity of Political Parties and Candidates Commission (IPPC), that much-needed awareness was generated concerning the importance of political parties and the need for strong leadership, sound party platforms and so forth. However, OLIPPAC's capacity to restrain the party-hopping was limited by the Supreme Court's rulings that it would be unconstitutional to impede MPs' freedom of choice. With another political impasse in November-December 2020, entailing multiple constitutional challenges being handled by the Supreme Court, a number of diverse civil society actors came together to remind legislators that their primary duty is to the constitution and to serving the public they represent, rather than creating instability for their own gain at public expense.

5 | Political and Social Integration

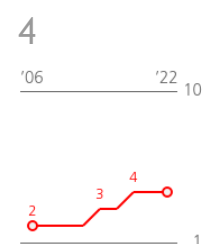
Political parties operate more like political factions at the national level, with small memberships and weak support at the grassroots level. They are difficult to distinguish ideologically. In fact, most parties in PNG are not founded on ideologies, belief systems, specific issues or historical circumstances that would galvanize and sustain support over time. In retrospect, while the question of independence created party divisions in parliament in the late 1960s and early 1970s, there has not been a single prominent issue since then that has generated the development of separate party platforms. All parties tend to stand for better education, health, infrastructure and say they will address corruption. The role of political parties was and still is limited to two particular functions: sponsorship of candidates and subsequent coalition building.

The parties are centered around prominent national leaders, although even these leaders periodically party hop for political expediency. This political volatility can include or out-manoeuvre voters at election times, when voters may have supported a party or leader for his stance only to find that the party or leader completely changes their allegiance immediately upon election. It also occurs between elections, notably during those periods when votes of non-confidence are legally permitted in the sitting government. This occurred in November – December 2020, when the deputy prime minister and his predecessor (the attorney general) both left the government and took

Commitment to democratic institutions



Party system



their parties to the opposition benches, seeking to oust the sitting prime minister and install a new government. Electoral or constituency development funds have been regularly used, as in 2020, by successive prime ministers to encourage allegiance from backbenchers, and to secure votes to pass important bills in parliament.

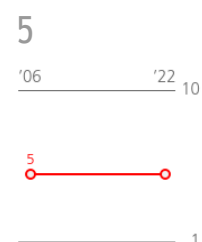
The government and most provincial authorities have consistently recognized NGOs as providing a critical complementary service delivery system. In high-level policy documents such as Vision 2050, the PNG Development Strategic Development Plan 2010 – 2030 and the Medium-Term Development Plans (2018 – 2022), there are many references made to the role of CSOs and the private sector in the delivery of services to communities, both on a routine basis and in times of natural disaster. The government has also prepared a government-church partnership policy and a government-civil society policy.

In the case of health and education, NGOs provide nearly half of the countries’ service provision, especially in rural areas. This ranges from providing elementary, vocational and tertiary education to managing sub-provincial hospitals and providing aviation and urban ambulance services, although these are partly funded through government and international sources. In addition, there are several business-funded organizations that promote the views and interests of the private sector in public policy. For example, national entities include the PNG Chamber of Commerce and Industry (PNGCCI), which promotes the interest of private businesses and acts as an umbrella organization for 17 provincial chambers of commerce and industry throughout the country. In addition, trade unions are legally recognized in both private businesses and the public sector, including for teachers, doctors, nurses and public service employees. Landowner groups associated with clans are also legally organized and recognized, as around 97% of land in Papua New Guinea is held communally by clans. This recognition allows the clans to defend their rights as owners of the land against the state and private companies, local or multinational.

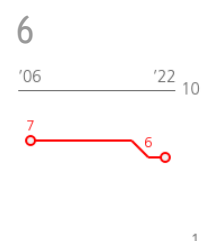
No representative surveys on this issue are available. However, anecdotal and circumstantial evidence suggests that there is robust support for electoral democracy among at least some of the population (urban, coastal areas). Students and civil society activists, in particular, value their democratic rights and opportunities. However, they have little trust in the government and are dissatisfied with the low quality of governance by elected governments. Most of the population lives in rural areas with little access to information. Despite this, the majority exercise their right to vote freely in elections.

Students and the educated urban population take opportunities to express themselves vocally in favor of improved democratic processes, or against corruption and abuse of process. There are valued mechanisms for public feedback, including talk-back programs conducted routinely on radio stations, as well as columns in the newspaper and extensive social media feedback

Interest groups



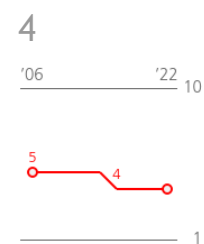
Approval of democracy



This land of 750 languages is more renowned for its social and cultural diversity than for its social or political cohesion, although it has managed to pull through its 46 years of independence with surprising coherence, considering the challenges. Much early effort before and during the early years after independence went into generating a sense of national unity.

Apart from churches, there are relatively few autonomous, self-organized groups, associations or organizations that operate across the country. The cultural and political fragmentation inherent in the clan system tends to resist the development of bridging social capital and complicates the process of developing national identity and solidarity. Moreover, competition for land and resources has created tensions, giving rise to a sense of threat and feelings of marginalization, regionalism and division. Social capital is strong at the clan level, but trust and cooperation among clans is not a “natural” means of building social capital. Earlier initiatives to create unity through national institutions have largely failed. There is a small level of interprovincial cooperation and coordination established mostly through welfare networks addressing family issues, sexual violence, and other gender- and humanitarian-related issues.

Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty is structurally ingrained. Despite rapid urbanization, Papua New Guineans still have widespread access to land and natural resources, which largely meet the poorer people’s subsistence needs. The formal sector still provides only about one-sixth of the country’s employment, with the balance of the working-age population securing their livelihoods from subsistence production and informal sector cash-crop output, processing and marketing, plus goods and services in the urban informal economy.

The Asian Development Bank and other institutions have determined the national poverty rate in PNG to be approximately 37.5%, with 56.6% of the population deemed to be living in multidimensional poverty and 25.8% in severe multidimensional poverty.

PNG’s Human Development Index (HDI) score is 0.555 (2019), ranking the country at 155th place out of 189 countries. This is a slight decline since 2017, when it was 151st, but is better than its 158th-place showing in 2014. This puts PNG at the bottom of the middle-income countries using the UNDP’s criteria. This was a pre-COVID-19 assessment, and no doubt significant shifts will be reflected in 2020. The Gender Inequality Index value for PNG for 2019 was 0.725, slightly down from the 2017

Question Score

Socioeconomic barriers

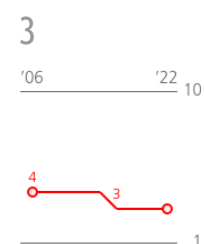


figure of 0.741, perhaps reflecting the absence of any female national legislators in the parliament or in the executive since the 2017 election. The main driver for PNG's relatively high (middle-income) HDI ranking is its GNI per capita, which was recorded by World Bank at \$4,301 for 2019. This indicator is driven by extractive industry resource wealth, although this is inconsistent. To date, however, this has failed to translate fully into broader-based formal-sector employment growth or economic opportunities – or even, in recent years, into revenue. There have been rising geographical disparities in wealth over many years in favor of urban centers, partly fueled by private investment and higher public expenditure in these centers, as well as the challenges of accessing remoter rural areas.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	22742.6	24109.5	24829.1	23591.5
GDP growth	%	3.5	-0.3	5.9	-3.9
Inflation (CPI)	%	5.4	4.7	3.6	-
Unemployment	%	2.5	2.4	2.4	2.7
Foreign direct investment	% of GDP	0.7	4.7	1.3	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	5347.8	5450.8	-	-
Public debt	% of GDP	32.5	36.7	40.0	48.9
External debt	\$ M	17223.7	17723.6	18744.7	17971.0
Total debt service	\$ M	2785.6	2779.3	2363.0	1325.7
Net lending/borrowing	% of GDP	-2.5	-2.6	-5.0	-
Tax revenue	% of GDP	12.6	13.2	13.0	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	2.0	1.9	-	-
Public health spending	% of GDP	1.7	1.7	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.4	0.4	0.4	0.4

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Large businesses are largely foreign-owned or majority-foreign-owned, apart from state-owned enterprises (largely comprising utilities and a major mine) and those owned by the two main pension funds, plus various resource-project landowner companies. In most industries (apart from transport, retail and security) there is little real competition, partly owing to continued state monopolies over certain utilities and some services, the population's still relatively limited market and purchasing power, the strongly dispersed domestic market, licensing restrictions (including over tree crop exports), and established market controls.

Apart from palm oil, most agricultural production and domestic marketing is conducted by smallholders and informal sector traders, with participants using customary land for production. Lack of formal land titles and transferability handicaps the entry of informal sector participants into the formal market. Some substantial business operations have also remained informal, avoiding taxation, although increased oversight and cooperation between regulatory offices is seeking to address this issue, together with the introduction in 2020 of concessional taxation arrangements for informal businesses seeking to transition into the formal sector. Many relatively substantial businesses (including foreign-owned enterprises) operate largely on a cash-only basis.

The Marape government has made the issue of national ownership and benefits a key part of its agenda, emphasizing the vision of “taking back PNG” and local wealth creation, including increased state and landowner stakes in resource projects. This came to a head in 2019 with demands for higher equity stakes and new benefit sharing arrangements for the major prospective LNG projects (Papua LNG and P'nyang). These projects were significantly delayed as a consequence. In April 2020, the government announced that the operating license for the long-established Porgera Gold mine (run by Barrick Gold Ltd) would not be extended but would instead be taken over by the state.

In the World Bank's Ease of Doing Business survey for 2020, Papua New Guinea was ranked at 120th place out of 190 countries, significantly down from its 2019 ranking of 108th. This reflected a substantial decline from 72nd place to 118th in the area of access to electrical connection, despite improved generating capacity in the country's capital. A slight further deterioration was seen in the areas of paying taxes, from 111th place to 118th, reflecting both the high level of corporate tax rates and the very large numbers of transactions required, and partly reflecting increased pressure to improve tax collection given the still-large budget deficit. On most measures the ranking remained virtually steady, with continued very low rankings for enforcing contracts (173rd), starting a business (142nd) and resolving insolvency (144th), but a slight improvement in trading across borders (125th), despite a

Market
organization

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continued shortage of foreign exchange over recent years. Accessing credit remained the strongest measure (48th), although it should be noted that credit is in fact largely unavailable to small or agricultural businesses, particularly those utilizing customary land, which comprises nearly 97% of PNG's land area.

The Independent Consumer and Competition Commission (ICCC), established in 2002, oversees markets and enforces competition, including markets subject to price controls. During 2020 many of the ICCC's reviews were deferred, notably in the areas of rice and flour, as well as water and sewage pricing. These were slated to be conducted in 2021 instead. The financial sector is heavily distorted, with a single bank, BSP, controlling some 80% of the market, despite the fact that the main regulator for the financial sector is the central bank. Most oversight functions for the telecommunications market have been transferred to National Information and Communications Authority (NICTA).

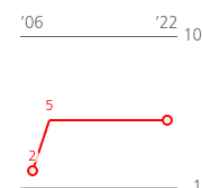
The ICCC also administers consumer protection provisions. A review of consumer and competition rules and responsibilities was conducted in 2017, which found the laws and organizational arrangements to be inadequate and fragmented. After a wide-ranging process of consultation, a National Competition Policy was approved by the government in 2020 and was expected to be implemented in 2021. Additional regulatory reforms were planned for 2021 to strengthen the framework, including provisions that would give the ICCC the power to address cartels, bid rigging and market sharing. A review of the effectiveness of existing public procurement mechanisms was also planned.

As PNG has a relatively small domestic market, as well as high internal transport and processing costs, most export goods are shipped out as mineral or agricultural raw materials. Most processed goods and extensive consumer goods, including diverse food products, including some new (grain-based) staples, are imported. PNG has had a substantial current account and trade surplus since 2014, when construction of the PNG LNG facility was finished and LNG exports commenced. With the outbreak of COVID-19 in 2020, which led to reduced commodity prices and disruptions to trade (and a halt to international tourism), the value of export goods from PNG fell in the second and third quarters to 74% and 72% of the 2019 values, and import values also fell to 69% and 82% of their 2019 levels for the same quarters. The country's total goods exports for 2019 were valued at \$9.1 billion, followed by an estimated \$7.7 billion for 2020 (or 39% of forecast GDP), with goods imports at \$3.3 billion for 2019 and an estimated \$2.8 billion for 2020. The balance of services flows the other way, with an estimated \$1.2 billion of imported services for 2020, against \$0.3 billion of exported services, including from tourism.

In 2017, the government introduced a National Trade Policy 2017 – 2032 to “send a strong signal to the international community that PNG is open for business.” A National Trade Office was established in 2020, as planned under the National Trade Policy, and is slated to receive a program of technical support (under USAID)

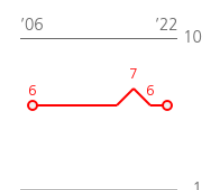
Competition policy

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Liberalization of foreign trade

6



commencing in 2021. WTO noted positively that the average applied tariff rate in 2019 was 3.9%, down from 5.1% in 2010, but expressed concern that several applied tariff rates exceeded the bound rates, and that tariffs had recently been increased for more than 300 products.

A committee has been established to review the current tariff rates so as to ensure greater logic and consistency, notably with regard to the increases introduced in the 2019 budget, when protective arrangements for selected domestic products (notably milk/dairy products, poultry, flour, tinned fish, wood products) were imposed. There has been some alignment of the trade policy with the Foreign Investment Regulatory Authority (FIRA) bill, with the former restricting public contracts below \$2.9 million to PNG-owned firms, and requiring that 50% of contracts with a value between \$2.9 million and \$8.7 million be awarded to PNG-owned firms. Although the FIRA legislation was put on hold in early 2019, it remains pending, and may be addressed by parliament in 2021.

The IMF's 2019 Article IV Consultation report, released in April 2020, indicated that "the financial system appears to be adequately capitalized, and non-performing loans moderate, but banks may be vulnerable." As the country's central bank, the Bank of PNG (BPNG), moves toward greater exchange rate flexibility, it is important to ensure that the banking system is able to manage exchange rate risks. Recent BPNG stress tests of bank balance sheets suggests that they can cope with significant exchange rate adjustments. A larger concern is with the financial health of the large state-owned enterprises (SOE) clients that are banks' clients. Several SOEs are essentially bankrupt, and banks will need to be adequately provisioned to deal with insolvencies. The IMF also commended the country's "substantial progress with strengthening its anti-money-laundering and terrorism financing framework, but challenges remain." This progress has particularly been driven by the establishment of the central bank's Financial Analysis and Supervision Unit (FASU), which has greater capacities, coordination abilities and authority than the small unit hitherto attached to the police.

Although Standard and Poor's reduced the country's credit rating on 29 April 2020 from B to B-, largely based on forecasts of COVID-19's impact on the economy, the credit rating for BSP, PNG's largest commercial bank, remained at B through 2020, where it had been since April 2018. Concern over foreign exchange and exposure due to government lending remain, as the government has sustained major annual deficits since 2012, leading to rising total levels of debt, owed especially to domestic banking and financial institutions.

BSP controls some 80% of the commercial market (and a higher portion in the rural centers). The commercial banking business is shared with Kina Bank, which has been on a rapid growth path over the past two years, acquiring the retail and SME commercial components of the long-established ANZ bank, and, in the second half of 2020, gaining ground in its proposed acquisition of the other (also long-established) commercial bank in PNG, Westpac.

Banking system

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Despite its growth, apparent dynamism and enhanced capitalization, via the Sydney and Port Moresby stock exchanges and with a significant equity stake acquired by the Asian Development Bank, the consolidation of the commercial banking sector under a duopoly of two banks is a concern in terms of the provision of competitive banking services. The spreads on both foreign exchange and lending/borrowing rates are already high by both regional and international standards. Kina Bank's absorption of two banks and their respective systems will also impose significant transitional challenges.

8 | Monetary and fiscal stability

Since 2014, the exchange rate regime has been classified as a crawling peg (against the U.S. dollar). There has been a slow trend of depreciation in the nominal kina exchange rate since 2012, which in the face of a positive inflation differential with its trading partners, has kept PNG's real exchange rate constant. While the commencement of LNG exports in mid-2014 pushed the current account into a large surplus of around 25% of GDP, the offsetting deficit in the financial account, driven largely by dividend and loan repayments by resource owners, has created a persistent excess demand for foreign exchange at the prevailing exchange rate. In 2020, falls in commodity prices due to the COVID-19 pandemic significantly reduced PNG's export earnings, and the current account was forecast to fall to around 15% of GDP. With only partial adjustment in financial outflows, this will result in a significant external financing gap of around 4% of GDP (\$1 billion) before reserve drawdowns. Of the shortfall, \$700 million will be met by loans from the IMF and multilateral development banks and the remainder by reserve drawdowns or import compression.

Since 2015, in the face of the foreign exchange shortage, the Bank of Papua New Guinea (BPNG) has rationed the market's access to foreign exchange through the provision of guidance to commercial banks on allowable transactions; the goal has been to protect foreign exchange reserves, rather than allowing the exchange rate to depreciate.

The foreign exchange shortage has exacerbated the low levels of liquidity in the banking system, as firms are unable to repatriate profits or pay overseas invoices or loans. This limits the effectiveness of the interest rate channel of monetary policy, an ongoing challenge for the BPNG. Domestic credit growth was -7.9% in 2018, reflecting lower growth in economic activity in part due to disruptions from a large earthquake in the highlands, but recovered to a more normal 12.7% in 2019 as economic activity improved. It was expected to grow by around 6% in 2020 in spite of the global pandemic. The inflation rate, which usually trends at around 6%, fell from 4.8% in 2018 to 3.1% in the first quarter of 2020, reflecting low imported inflation due to subdued inflation among PNG's trading partners, slow kina depreciation and stable prices for seasonal produce. Some upside risks to inflation exist due to possible coronavirus-related disruptions to domestic and external supply chains.

Monetary stability



There has been a sequence of historically high budget deficits over the past decade, peaking at 9.7% of GDP in 2013, falling to a low of 2.5% in 2017, increasing in 2019 to 4.1% and projected at 6.4% in 2020. The improvements in the middle years of the decade were the result of significant fiscal consolidation, driven primarily by expenditure cuts and recent improvements in revenue streams. In 2018, the government implemented the Medium-Term Revenue Strategy to increase revenue through improved tax compliance. Tax revenue increased substantially in 2018 relative to 2017, owing to improved compliance and an increase in resource revenues due to higher commodity prices. The more recent upward trend in the budget deficit has been driven by personnel cost overruns and significant government revenue declines in 2020 due to the COVID-19 pandemic, leading to a jump in the forecast fiscal deficit to 3% of GDP.

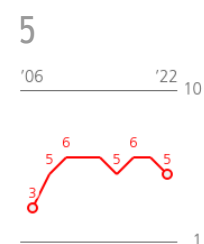
PNG has in place a medium-term fiscal strategy (MTFS) for the period 2018 to 2022, which together with the Fiscal Responsibility Act places an interim limit on the ratio of government debt to GDP of 35%, with the normal limit of 30% to be restored over time. However, this interim limit has been breached, with a ratio of 36.8% reached in 2018; this rose to 39.0% in 2019 and is forecast to rise to 43.5% in 2020 due to the COVID-19 pandemic. According to current projections, the budget deficit will fall to 4.1% of GDP in 2021 and 3.7% in 2022, with the debt-to-GDP ratio forecast to remain above 42% until 2025. These forecasts must be taken in the context of the high level of uncertainty around the economic outlook for PNG as it deals with the pandemic.

9 | Private Property

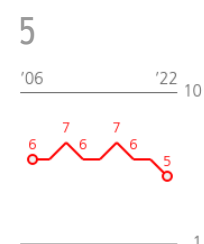
Domestic and foreign private entities can set up, own, operate and sell businesses, subject to certain restrictions on foreign companies. The Investment Promotion Act prohibits expropriation. Specific industries are also subject to sectoral legislation, such as the mining, oil and gas, forestry and fisheries acts, which specify companies' rights to conduct business activities; obtain licenses and permits; and own, extract, process and trade the products secured from their permit or license areas. Amendments made in 2020 to the Mining Act and the Oil and Gas Act are considered to weaken companies' security in conducting exploration, while making state agreements less advantageous for oil and gas companies.

Most land in PNG is subject to customary ownership, with only urban land and small portions of rural land under state ownership. Land ownership is restricted to citizens, with legitimate access to land for businesses, including foreign investors, through state leases. Land administration is notoriously slow, inefficient and problematic, with poor records and sometimes even multiple titles issued, as a result of maladministration and corruption. The land allocation system, utilizing a Land Board, is meant to operate on a competitive basis, subject to zoning conditions, while

Fiscal stability



Property rights

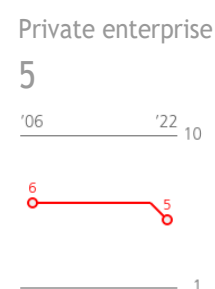


giving consideration to need and priority. But the system can be slow and cumbersome, and extensive abuses are reported, with properties exempted from advertising and allocated exclusively to certain officials and favored businesses and individuals. Addressing problems over land administration through the court system can be very time consuming and costly, even for seemingly simple cases, but usually achieves a fair outcome given time and expense. A National Land Use Planning mechanism was under preparation in 2019/20, entailing extensive consultation, with the goal of reconciling different land use priorities at the national and local levels

The state has a legal entitlement under the Mining Act and Oil and Gas Act to acquire up to 22.5% equity in oil and gas projects and 30% in mining projects (on a sunk-cost basis). It has in fact taken up equity in major mines but has long since resold most of these shares. Concern has developed in the industry over the state's non-renewal of the special mining lease for the major Porgera gold mine in Enga province in April 2020 and its subsequent assumption of the lease, leaving the mine closed for the rest of the year. With the recent amendment to the Mining Act, the state can more readily secure the title for both new and existing mining projects, while the amended Oil and Gas Act would subordinate project agreements to prevailing fiscal and other measures.

The state retains equity stakes in entities in the gas, mining, power, post and telecommunications, aviation, banking, motor vehicle insurance, ports and utility sectors, as well as in provincial businesses. Some of these enterprises, such as PNG Power, are financially struggling; ADB analyses have shown them to be uncompetitive and poor performers, imposing a high cost on businesses and household users. Private business, including foreign direct investment, is generally encouraged. However, for several years, government policy initiatives – notably the SME policy – have proposed restricting certain business activities to local ownership. Certain legislative amendments (including for the Mining, Oil and Gas, and Public Procurement acts) have granted the state and local entities the right to greater equity and control over resource projects, while reserving smaller building or supply contracts (notably under \$3 million) to PNG-owned companies.

The Reserved Activity List, which forms part of the SME policy launched in 2016, expanded the list of business activities restricted to PNG-owned companies. Considerable uncertainty regarding the implications of this policy persists. The list cover a diverse range of micro and SME businesses in the agriculture and transport sector, as well as all enterprises with annual turnover below \$2.5 million. After business organizations expressed consternation, the government of the time held off on passing the measure, but the draft legislation remains on the parliament's agenda. With the change of government in May 2019, a stronger "take back PNG" policy was espoused, although in practice, relatively recently arrived overseas entrepreneurs have expanded their ownership or control of retail, construction, forestry and other business activities, even down to the micro-enterprise level, widely bypassing formal systems.



10 | Welfare Regime

Most people (approximately 83% of the active workforce) work outside the formal sector and are dependent upon their own land, gardens and coastal waters for subsistence or cash sales, or upon other informal economic activities for their livelihoods. The elderly largely depend upon their own capacity to produce and trade produce from their own gardens; if incapacitated or during times of natural disasters, they depend largely upon family members, clans or communities.

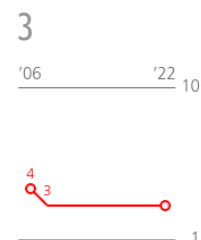
The state provides no nationwide social protection system, and only basic health services and partially subsidized education services. Workers in the formal sector send an estimated average of 10% of their income each year to families and communities in their home provinces, largely in rural areas. These funds help pay for school fees, medicines, homes, water storage and the fulfillment of traditional exchange and other social obligations.

Formal-sector employees, except in small enterprises with less than 15 employees, are required by law to contribute to pension funds, with employer contributions also obligatory. These funds can be accessed only upon retirement, or during periods of extended unemployment, although with the COVID-19 pandemic, the government amended the law to enable more immediate access to these savings (in the absence of any state unemployment or other publicly funded relief measures). The New Ireland provincial government provides the country’s only public pension and disability support program, although this provides only a token contribution toward recipients’ living costs.

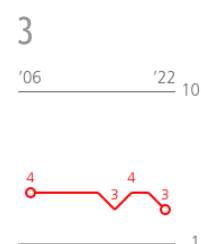
The government does provide some relief measures following natural disasters, but with limited population or other public records or financial inclusion, this cannot be transferred directly to households. Rather, as with COVID-19 relief in 2020, this is provided in the form of district grant mechanisms, which are poorly targeted and overseen and highly prone to political patronage and misuse. In late 2020, a system of cash-crop price supports was also instituted to provide wider relief in rural areas, but to date these schemes have been ad hoc, potentially very costly, and poorly designed and overseen.

Although the country’s constitution and laws provide the basis for equality of opportunity, structural problems remain, as the political leadership is too weak to implement such critical goals. Structural exclusion remains pronounced in PNG. The poverty rate in PNG is 39.9%, with this share of the population living on less than \$1.90 per day. However, there are wide variations in the poverty experienced between urban and rural areas, and between provinces. A recent survey in the Sepik Region revealed that up to 68% of the rural households sampled there live in conditions of extreme poverty.

Social safety nets



Equal opportunity



The education system aims to provide universal basic education, providing free instruction at the primary level. However, the current structure of the education system pushes out as much as 75% of students before they are able to complete their schooling through grade 12. Only between 1% and 2% of those that complete grade 1 make it to tertiary education. Special measures are taken to try to increase enrollment rates among girls and low-income groups especially at the secondary and tertiary levels. Based on the 2011 national population census, 9.5% of the female population aged 25 and older had at least some secondary education, compared to 15% of males. Only those who complete grades 10 to 12 are given opportunity to further their education or obtain low-level positions such as sales attendants or security guards.

The labor force participation rate among men was 38.6% in the formal economy, and 13.2% among women (2011 census). Women have little role in the political arena. In the 2017 national elections, no female member of parliament was elected, as compared to three female members in the 2012 national elections. Women are largely economically active in the informal sector, though more men are getting involved here as well. The informal economy accommodates many vulnerable people including women with young children, elderly people and disabled people, all of whom may be excluded from the formal economy and who need some flexibility regarding the time and place of their work. However, the downsides are often poor working conditions.

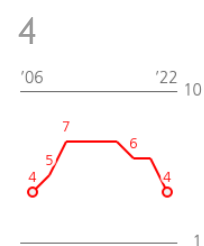
11 | Economic Performance

After many years of relative economic stagnation, with low or even negative growth rates and similarly poor performance in the formal sector's job market, 2019 saw a firm recovery and a real economic growth rate of an estimated 5.9%. This was largely due to the resources sector and stronger commodity prices, and benefited from the lack of the major natural disasters that struck in 2018.

Real GDP per capita for 2019 (2017 PPP) rose to an estimated \$4,355 according to the World Bank, and GNI per capita to \$4,301 according to UNDP. The country's Department of Treasury initially forecast a sustained positive real growth rate for 2020 of 2.9%. However, the year ultimately brought about a collapse in global trade, a fall in commodity prices and the country's terms of trade, and disruptions to social and economic activity (and fiscal management) associated with the COVID-19 pandemic, as well as the closure of the Porgera gold mine in April 2020. The impact of these changed conditions is estimated to have led to a -3.9% real economic decline for 2020, entailing a -5.8% decline in the resources sector and a -0.2% rate in the non-resources sector.

Headline inflation rates based upon the consumer price index (CPI) were recorded by Treasury/NSO at 3.6% for 2019 and estimated at 4.0% for 2020 (although the World

Output strength



Bank has produced a revised estimate of 5.3%, which reflects the leap in some prices during the second quarter related to disruption of agricultural supply chains, plus increased demand for health products associated with the pandemic). The CPI might have been expected to have risen further, but demand was restrained due to recessionary conditions and restraints on travel during the year.

The central bank's employment index showed positive formal employment growth in the year from September 2018 to September 2019, particularly in the mining sector (23%), and manufacturing (9%), but declines in transport (-15%) and construction (-9%), and in the non-mineral sector overall (-4%), leaving a total 2% gain. For the period from September 2019 to September 2020, the survey indicates an overall formal employment decline of 6.7%, with a 30% decline in the mining sector (largely due to the closure of the Porgera mine), and a total 2.9% decline excluding the mineral sector, reflecting the wider downturn from the first months of COVID-19's impact, and the lack of real alternative stimulus.

The deferral of the expected approvals for the Papua LNG and P'nyang LNG projects in 2019 due to the government's proposed changes to resource-project investment conditions generated added investment uncertainty and delayed major new investment and economic activity that was meant to have commenced in 2020. More positive progress in resolving issues related to Porgera, the Papua LNG project and the Wafi-Golpu copper and gold mine provide some hope (rather than certainty) that Porgera operations will be restored in the second quarter of 2021, and other major projects in 2022.

PNG has run a strong current account surplus since 2014 22% of GDP for 2019 and an estimated 23.8% of GDP for 2020, particularly due to a strong trade balance. This would have declined on the back of lower oil/gas/vegetable oil prices in 2020 but was sustained notably by markedly higher gold prices in 2020. This is in turn offset by the capital and financial accounts, with major outstanding project debts, notably for the major PNG LNG project, and offshore dividends, plus growing government debt servicing, leaving an overall balance of payments deficit of \$366 million, as estimated by the central bank for 2020. This has also been reflected in declining foreign exchange reserves and the steady weakening of the currency, despite central bank support (notably through trading restrictions). Official reserves fell from \$2.3 billion in December 2020 to \$2.0 billion in May 2020 but were expected to rise to \$2.7 billion by year's end, largely reflecting loans from the IMF and other international sources.

12 | Sustainability

PNG has constitutionalized extensive laws, policies and strategies with a major focus on sustainability, such as the Medium-Term Development Plan (MTDP) 3 2018 – 22, which emphasizes sustainable development and population. Moreover, the country has ratified several international treaties such as the Paris Climate Accord and has endorsed the SDGs. Currently, a National Land Use Policy is being finalized. However, in practice there is an apparent readiness to circumvent the laws and procedures for major resource projects, including the Forestry Act's sustainability and project criteria; moreover, the authorities do not enforce these rules rigorously.

Coal exploration and extraction projects have been approved, and a coal-fired power station is also being promoted by powerful interests within government. Deep sea mining and sand-mineral mining projects have been approved despite the absence of specific policies. Deep sea tailings waste disposal is controversial but has been approved for the major planned underground Wafi-Golpu copper/gold mine in Morobe Province; this option appears to have less impact or risk than other options, notably an onshore tailings dam.

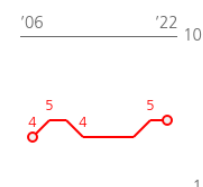
Management of the world largest tuna resources in the West-Central Pacific has made progress under regional arrangements led by the Forum Fisheries Agency and the parties to the Nauru Agreement, along with its vessel-monitoring scheme. However, although member countries have received greater gains in recent years, PNG receives inadequate benefits, as most of the fish are still transshipped to Southeast Asian processing facilities (notably in Thailand), with few Papua New Guinean employees employed on vessels and in domestic processing facilities.

PNG has achieved a major increase in student numbers over the past two decades, due both to the high levels of population growth and increased enrollment and retention rates. Gender balance has improved, but quality has suffered. Total student numbers rose to around 2.6 million, and with 69,000 teachers in 2019. PNG's net enrollment rates remain below the average for lower middle-income countries, however. The literacy rate was 61.6% in 2010, and the UN Education Index score for 2019 was 0.439.

Although school capacities and facilities have substantially increased, the education budget remains deficient in real terms. The budget for education in 2019 was PGK 1.3 billion or 8.5% of total expenditure, rising to PGK 1.4 billion for 2020, or 9% of expenditure. However, this fell to PGK 1.1 billion or 5.6% of total expenditure for 2021 following the discontinuation of the tuition fee free (TFF) scheme and its replacement by a school-fee subsidy. The government introduced a tuition fee subsidy scheme in 2019, with parents expected to contribute partial fees. While this reduces costs and potentially makes education expansion financially more sustainable, there are concerns that wealth disparities are rising and that poor

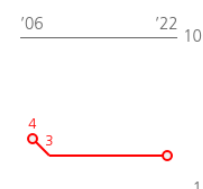
Environmental
policy

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Education policy /
R&D

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households will have fewer opportunities. The policy also risks turning the clock back on gender-equality progress in schools, with parents withdrawing girls from education in the face of financial hardship.

In recent years, there has been a major program focused on upgrading skills and qualifications across the board, especially at primary and secondary levels. STEM education has been rolled out in selected schools across the country, distance learning capacities have been enhanced, more schools have been outfitted with libraries, and more classrooms have been made permanent structures. The application of an orderly National Education Plan 2015 – 2020 has provided a more systematic coordination of effort, but this remains a challenge, with responsibilities for delivering education services shared by multiple entities.

PNG is in addition promoting research and development education within the schools and universities. With few exceptions, science and technology instruction has been poorly funded, and participation in science subjects at the secondary and tertiary levels has been limited.

Governance

I. Level of Difficulty

The structural constraints on governance include historical factors, such as the late rollout of education systems and public administration, as well as the extremely difficult geography and widely dispersed rural populations, which makes access difficult and costly. PNG has an underdeveloped transport system and physical infrastructure; illiteracy is widespread; and the state has long lacked administrative capacities. Moreover, the country is prone to strong rainfalls and periodic dry seasons, especially in the southeast and the highland regions, as well as natural disasters. Many communities are accessible only by light aircraft and often hazardous remote airstrips; only 200 of the country's original total of 650 airstrips are today regularly serviced. Likewise, formerly operating coastal ferries and government vessels have reduced or stopped service, leaving remote islands and coastal areas dependent on access via small and relatively hazardous 19-foot dinghies. A few remote islands still have ferries, but with very limited service.

As a tropical country with very limited water and sanitation infrastructure, PNG suffers from extensive tropical diseases, typhoid and various enteric diseases. PNG also has some of the world's highest rates of tuberculosis and child pneumonia. The rate of HIV/AIDS infection is high, with the National Capital District, the Western Highlands and Jiwaka Province recording the highest number of registered cases in the country. Inaccessibility and poor health services also contribute to very high child and maternal mortality rates, especially associated with childbirth and early years of life. PNG has among the worst outcomes on social indicators in the Asia-Pacific region. A paucity of data and data collection imposes severe constraints on public policy, with the most recent figures available being at least a decade old. Poor data, deficient health service capacity and a lack of social protection, combined with high household densities in urban settlements, all make the prospects of a severe spread of COVID-19 in 2020/21 more challenging for authorities to address.

Structural
constraints

8

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Civil society in PNG is characterized by a combination of traditional leadership and community consultative systems. These vary considerably around the country, including between patrilineal and matrilineal parts of the country. Churches and church-based organizations play an important role in providing services, mainly in the health and education sector, but also with regard to transport. Churches of various denominations are consulted at all levels of society, from the local community level to the national level, and church organizations engage in a wide range of public policy issues.

Non-church-based civil society activity, including women's advocacy groups, varies considerably around the country, with some provinces having well-established networks, but others having very few. Even secular CSOs often have some church linkages. In recent years, there has also been an increase in civil society engagement around the issues of gender-based violence (GBV) and corruption.

Government and individual ministers have responded ambiguously to an increase in advocacy campaigns led by civil society in recent years. They welcome public discourse and are committed to institutionalizing reforms such as the Whistleblowers Act. On the other hand, there have been amendments to critical acts – the Environmental Act, for example – and limits placed on the scope of CSO engagement, for example under the Cybercrime Act.

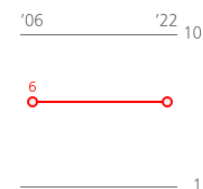
Years of slow or zero economic or formal-sector job growth, limited educational opportunities, urban migration, associated hardships and frustrations especially among male youth, disillusionment with politicians, widespread apparent corruption and growing income disparities, a weakening of traditional authority, and undisciplined police behavior have all combined to fuel increased lawlessness across much of the country. This was previously restricted largely to the national capital and a few main towns, cities and provinces; but in recent years has spread to the more peaceful coastal and island provinces, such as Madang, Milne Bay and New Ireland. Major unfulfilled promises made during the very flawed elections, including to male youth groups, have added to the sense of youth frustration.

The recent political standoff in November – December 2020 added to the perception that politicians put their own interests ahead of the public's. Rhetorical stances that have resulted in major project and job losses, such as the unnecessary April 2020 closure of the Porgera mine – a major employer and foreign exchange earner – have also not helped. The COVID-19 pandemic and associated lockdowns in 2020, the seemingly worsening crisis in 2021, and the government's apparent inability to respond effectively have all further fueled social and household economic tensions.

The advisory referendum on Bougainville's independence in late 2019 was conducted efficiently and peacefully, and provided a clear outcome in favor of independence. The follow-up response is the responsibility of the national parliament, and while it does not need to occur immediately, undue delays in the process could lead to

Civil society traditions

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Conflict intensity

6



tensions. So far, the PNG prime minister and government seem to be taking the results seriously, but the term of the current government and parliament only runs until 2022 (assuming the government survives any further vote of no confidence).

II. Governance Performance

14 | Steering Capability

PNG has a well-established long-term and strategic planning capacity. Recent initiatives include the Vision 2050 plan, the Strategy for Responsible Sustainable Development and the Medium-Term Development Plan III (2018 – 2022), as well as specific plans for the education, health and other sectors. The political capability to develop long-term policies and plans is tied closely to international commitments, such as the Sustainable Development Goals (SDGs). The MTDP and sectoral plans are designed for five-year periods, so as to coincide broadly with parliamentary terms. However, governments are often removed before their official time in office is up. The 2017 government, for example, was removed from office in April 2019. In addition, legislators often focus on their own personal interests, giving priority to projects they directly profit from.

The country's difficult economic and fiscal conditions, as well as recent natural disasters, have also seriously disrupted medium-term plans and their implementation. Budgetary plans are particularly disrupted in years when there are major financial or operational difficulties. Political expediency is a major disruptive factor; notably, the objective of sustaining the government in office requires that party and government loyalty be maintained, which in turn entails providing funds to parliamentarians to be distributed within their districts. When revenue or cash flow is tight, this can mean prioritizing public sector wages and legislators' project funds at the expense of other government expenditures, including development programs and payments owed to government suppliers.

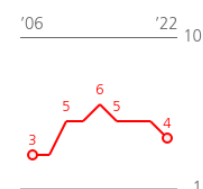
Few national plans have been fully implemented. Financing for these ambitious plans continues to be significantly less than required. Some plans, including for the health and education sectors, are better implemented than others, partly through support from development partners, contributions from constituency development funds and inputs from non-government organizations, but even these remain deficient. The plans tend to be overambitious and are often based upon unrealistic scenarios. They also tend to fail in recognizing key constraints.

The government is still in the process of setting up relevant coordination units and funding the implementation of these plans. As the Integrated Financial Management

Question
Score

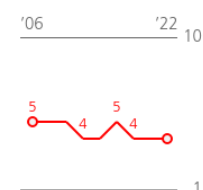
Prioritization

4



Implementation

4



System (IFMS) eventually rolls out across departments and agencies, with international support (including from the IMF), there should be better information and oversight of public finances in a timelier manner. However, this still requires that reliable revenue be forthcoming and that expenditures be controlled. Moreover, clear policy priorities are needed, as is greater parliamentary and public oversight of expenditures, including in the case of COVID-19 and natural disaster spending.

The government has demonstrated some willingness to engage in policy learning. The Medium-Term Development Plan III was prepared in 2018, and focuses on and coordinates the government’s development objectives. The government also reviewed the Development Cooperation Policy, which coordinates support from its development partners. Although the MTDP3 is somewhat unrealistic in many regards, it highlights the government’s recognition that the extractive industries have failed to deliver the revenue needed for it to play its part in providing public goods.

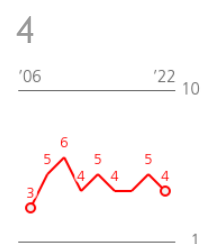
During the past two years, there has been greater recognition of landowner rights and concerns, and improved benefit sharing arrangements, although the unnecessary closure of the Porgera goldmine in April 2020 was a debacle. The government directed that a modified education curriculum was to be introduced beginning in 2013. However, the replacement system was introduced without adequate preparation of materials or teachers, causing extended disruption. Over the subsequent years, constructive lessons have been learned and applied.

In the health sector, the high prevalence of various transmissible and noncommunicable diseases and the weak capacity of health services left the country poorly positioned to face COVID-19. Many lessons are being learned during the pandemic, but the government is aware that it has limited resources available for forward-looking measures in the future. In stark contrast, the agriculture sector is performing badly. This is the result of short-term measures and personal interests being placed ahead of the public’s interests. In terms of debt management, the government has worked cooperatively with international development partners, including the IMF, to make debt details more transparent.

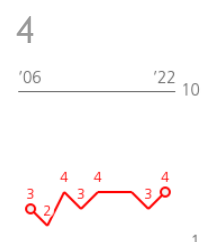
15 | Resource Efficiency

In recent years, the government has adopted a strategy of fiscal expansion and exposed itself to larger budget deficits due to a sharp drop in commodity prices and a lower share in the gains from resource projects. Even though 2019 saw a substantial recovery in resource sector production quantities and prices, a fall in revenue and an economic stimulus package resulted in an increase in overall debt (roughly 49% of GDP in 2020). As a result, a supplementary budget and an amendment to the Fiscal Responsibility Act 2006 was needed. In total, debt reporting has been made more comprehensive and rigorous since 2019, with support from the IMF.

Policy learning



Efficient use of assets



In recent years, government departments and agencies as well as other subsidiary bodies have not submitted their financial statements to the Department of Finance, often due to a lack of funding. As a result, these statements have not been given to the Office of the Auditor-General, or have been done so very late. The Auditor-General normally processes such statements for audit and presentation to parliament. The roll out of the Integrated Financial Management System (IFMS) is meant to assist with the timely management of public finances and the preparation of financial reporting, but the rollout has been very slow, costly and dependent upon good telecommunications networks, which many provinces and most districts lack. Although there is still a way to go in producing timely and comprehensive reporting, including on contracts and subnational transfer details, the first reporting on beneficial ownership and state-owned enterprises was conducted in 2020.

A new Public Procurement Authority has been established and tasked with taking responsibility for all national and subnational procurement. Together with the introduction of the Whistleblower Legislation at the start of 2020 and the Anti-Corruption Commission legislation in November 2020, some prospect of greater accountability for public funds has emerged, assuming these bodies can be provided with adequate resources, and themselves be independent and accountable. In addition, a Parliamentary Public Sector Reform Committee has been established, including provincial governors and legislators from different parties; this is tasked with working with the government to examine and propose ways to improve the delivery of public sector services.

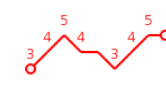
Policy in Papua New Guinea is determined by the National Executive Council (called the NEC or simply the cabinet), which includes the prime minister and his selected cabinet ministers. Policies and plans are set on the basis of a hierarchy of legal and policy frameworks, starting with the national constitution and its national goals and collective principles, and referring then to a long-term policy vision called Vision 2050, and then to various strategic policy frameworks including the National Strategy for Responsible Sustainable Development for PNG, the Medium-Term Development Plan (III, 2018 – 2022), and associated plans for the health, education and other sectors. There are also laws setting out processes for linking planning and annual budgeting, including the National Planning and Monitoring Responsibility Act.

During the 2019 – 2020 period, some progress was made toward positive coordination of various law and justice and social sector policies. This enabled progress on a variety of governance mechanisms, such as the Whistleblower Act and the Organic Law on the Independent Commission Against Corruption. This support also helped improve coordination in the field of education and higher education, where a surfeit of government and non-government participants leads to suboptimal outcomes. Despite limited funding, better coordination provides some prospects of improved outcomes and standards going forward.

Policy
coordination

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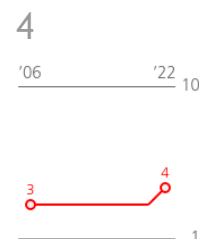
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Plans for an Independent Commission Against Corruption (ICAC) were first mooted in the late 1990s, but although a National Anti-Corruption Strategy was approved in 2007, and a National Anti-Corruption Agency (NACA) was introduced to better coordinate the anti-corruption response, capacity was limited. Moreover, corruption has seemingly expanded and become increasingly institutionalized. During the period under review, the ICAC was finalized and approved as part of an organic law in 2020, after an interim period in which the Task Force Sweep (TFS) was active. With very limited funding committed to ICAC in the 2021 budget, however, the rollout of the ICAC may be slow.

Anti-corruption policy



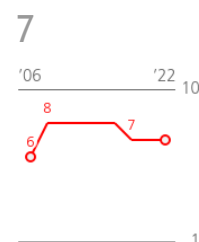
The Marape-Stevens government also introduced whistleblower protection legislation that was approved by parliament in February 2020. The Right to Information legislation was deferred until 2021 due to the pandemic and the reluctance of the government to convene or extend sessions of parliament, as it faced the threat of a vote of no confidence. The commission of inquiry into the borrowing from Swiss bank UBS, ostensibly for a controversial purchase of shares in the resource company Oil Search, has been a very slow-moving process.

Continued use of large constituency grants, basically controlled by local members of parliament and notorious according to auditor-general reports for their poor accountability, is concerning. This mechanism was used to fund much of the COVID-19 relief in 2020, particularly during the lead-up to the prospective vote of no confidence, when a series of shifting allegiances by major parties and candidates occurred.

16 | Consensus-Building

PNG’s national constitution provides for a state that is democratic, participatory and humane. However, major political parties and political actors have divergent views regarding the nature of democracy in PNG, the best model of resource ownership and control, and the role of state and foreign investment. Still, the underlying differences between the political parties are limited, defined largely by who is in power at the time rather than by deeper underlying platforms. Some political leaders have comparatively greater engagement with and awareness of economic and business realities and the impacts of their actions than do others. The government in power through April 2019, like its predecessor, became increasingly autocratic over its time in office. While it avowed a commitment to free speech and different views, it sought to limit the expression of diverging views in parliament and by civil society, including students. Student demonstrations were violently suppressed by the police. The opposition’s ability to raise concerns was increasingly limited. The government was also widely seen as enhancing business, land acquisition and economic opportunities for its own members, and undertook major expenses and acquisitions, whether for major status projects or corporate equity acquisitions, without due consultation or a

Consensus on goals



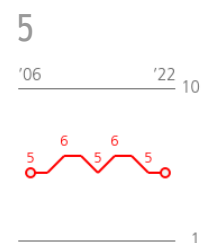
process of review. This was true, for example, of the international borrowing for the purchase of an equity stake in Oil Search, the oil/gas company, and in the acquisition of a fleet of luxury cars for the 2018 APEC meeting.

The new government that gained office in April 2019 has given markedly greater emphasis to national ownership and control of natural resource development, and to expanding the local benefits accruing from them. Economic and political realities have undermined implementation of this aspiration, which has also been applied in a very inconsistent manner. Foreign-owned forestry and fisheries operations and micro-SMEs might have been expected to be early targets for these plans, as they could be more readily owned and controlled by local businesses. However, they have been more or less left to their own devices, despite the apparent strong rhetoric, whereas major extractive resource projects needing significant supplies of international capital were closed (as with the Porgera mine), heavily delayed or forced to undergo major renegotiations. This populist “take back PNG” stand gained the government initial public support, but as time progressed, and the economy remained flat and people lost jobs, the prime minister’s promises of “short-term loss for long-term gain” rang increasingly hollow. The opposition was critical, as were the private sector representatives and some policy commentators, even while recognizing that the local benefits from resource development had previously been both inadequate and inconsistent. However, the opposition’s voice was publicly discredited, as it was seen as having unduly compromised PNG’s interests during resource-project negotiations, and as having advanced the personal interests of some of its principals, including ministers responsible for resource portfolios.

Of course, the contrast between the former and current government was greatly diminished by the presence of several ministers from the former government serving as ministers in the new government. This included the prime minister, his deputy and some of the ministers holding resource portfolios. However, it is widely recognized that governments and political parties in PNG are not formed around ideologies or political platforms, but rather around common interests in gaining a slice of power and control over public resources, and along with largesse over appointments and other influence. Political actors agree on working toward developing the country’s market economy as a strategic, long-term goal of transformation, and a national reform agenda to strengthen the market economy and trade policy is being developed. However, actual practice is defined by patronage (some would say cronyism) and corruption that distorts the operations of the economy, with little effort to address the actual constraints on business and investment in the way needed to generate economic activity, jobs and revenue.

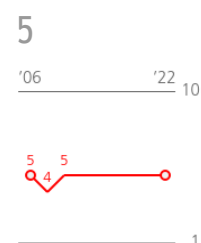
The problem with regard to transformative reforms in PNG is not the presence or veto power of anti-democratic actors acting strategically out of conviction against the implementation of democratic or market-economic reforms. Rather, corruption and self-interest (including monopolistic interests), sometimes in collusion with overseas interests, can stall democratic reform and competitive market reforms. PNG is now increasingly engaged with different regional/international strategic players who are willing to use loans and development assistance, investment, and other means to promote their market and strategic interests, which in some cases may be both anti-democratic and anti-competitive. Reformers outside government are too weak, and those inside the government are generally not sufficiently committed to prevent all of the powerful domestic actors, such as tribal groups' leaders and regional political leaders, from seeking control of the reform process, both at the policy level and during the implementation process. It should be noted here that anti-democratic actors in PNG are mostly rent-seekers and opportunists rather than those who wish to replace liberal democracy with an authoritarian system. During the term of the current government, some measures have been passed that could enhance governance and due process, and some pending policies may enhance fair market practices. Yet it is unclear whether these will actually be implemented freely and fairly. PNG is well-known for having extensive policies and laws, but less so for implementing them.

Anti-democratic actors



Conflict and cleavages based around tribes; regions; and social, cultural, ethnic and language differences are a characteristic of Papua New Guinea. Much of the focus of those developing the constitution in the early 1970s was on generating a single nation out of diversity, despite the presence of 840+ languages and significant ethnic and cultural divisions. Much of the objective was to achieve mutual respect and equity, while allowing some diversity and local control through a system of political decentralization. To meet these local and regional aspirations and avoid further conflict, the national government has conceded greater autonomy to Bougainville and a few other provinces, while allowing Bougainville to hold an independence referendum in December 2019. Although the result of the advisory referendum was firmly in favor of independence, the national parliament has authority over such constitutional issues. The government and parliament are now faced with the challenge of meeting the aspirations of the people of Bougainville, through due process and in a timely manner, while also addressing the constitutional issue of the indivisibility of PNG as a nation-state, and additionally restraining other provinces or regions' aspirations for greater autonomy or independence.

Cleavage / conflict management



Top figures in the government appear to be aware of the risks of these cleavages, but seem to exacerbate them, as they draw upon strong support bases at the provincial and district levels. When policymakers try to prevent cleavage-based conflicts from escalating, they sometimes suppress the freedom of expression, use money to keep dissenting voices quiet, and employ tactics of divide and rule. In some cases, the government's security forces use violent measures, although the police and defense forces have in the past demonstrated a readiness to avoid being drawn into political

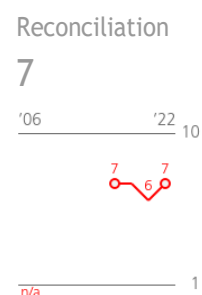
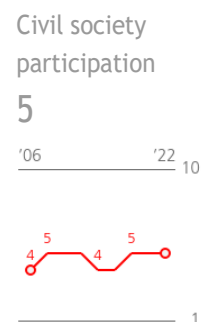
feuds, which could also divide the forces themselves. Politicians have not hesitated to make multiple changes to the position of police commander to ensure a compliant figure occupies the post. This was particularly the case under Prime Minister Peter O’Neill from 2011 to 2019.

The political process is open to civil society engagement. The delivery of basic services, for example, rests mostly on the shoulders of CSOs and churches. Churches in particular play a major role in providing health facilities and school instruction in the rural areas of the country. Women’s groups play a key role in providing assistance for victims of gender-based violence. The government has responded to this issue by setting up a parliamentary committee. The Consultative and Implementation Monitoring Council (CIMC) provides a platform for advancing constructive routine dialogue between the government, civil society and the private sector on key economic and social issues. Tight funding and the COVID-19 pandemic restrained some of CIMC’s program in 2019 and much of it in 2020.

In 2015, the government also committed to the Open Government Partnership (OGP) process, with a government-approved National Action Plan (NAP, 2019 – 2020), focused on the issues of the freedom of information, fiscal integrity, EITI and public participation. Under the oversight of the minister for national planning and monitoring, the OGP is comprised of government and civil society representatives and is co-chaired by the government and civil society. Progress with the NAP was delayed in 2020 by the pandemic and associated lockdowns and restrictions on meetings, but progress was being made, albeit with implementation deadlines extended.

During elections, independent monitoring is provided by foreign missions, an Australian university team and the local Transparency International chapter. Monitors have been fielded in all provinces, including during the referendum in Bougainville at the end of 2019. Independent policy think tanks participate in dialogue with the government and parliament on post-election reforms and on other public sector reform and policy issues, and participated in initial consultations on the pandemic response, including the ensuing economic package, although the dialogue largely petered out as lockdowns were imposed.

The main issue with regard to conflict reconciliation and addressing historical acts of injustice relates to the conflict between the central government and parts of the population of Bougainville. The conflict between PNG government forces and the self-declared Bougainville Revolutionary Army lasted from 1988 until the mid-late 1990s and was the longest and bloodiest internal conflict in the South Pacific. Between 12,000 and 14,000 people were killed. It also shut down the major Bougainville copper mine in 1989, which at the time was the main single revenue source for the national government and for the province. At the height of the conflict,



between one-third and one-fourth of the population were internally displaced and lived in refugee camps controlled by the PNG Armed Forces.

Negotiations brokered by New Zealand ended the fighting in 1997, and negotiations between the central government and the rebels led to the installment of the so-called Autonomous Region of Bougainville (AROB). In 2005, elections for an autonomous government were held. The real test for reconciliation, however, was the independence referendum held in December 2019. The successful and peaceful conduct of the referendum represented an achievement for the national and AROB governments, along with their development partners, as some factions, such as Panguna landowners, initially indicated a refusal to participate. With a very high turnout, voters overwhelmingly voted in favor of independence. While the central government vowed to respect the result of the plebiscite, it has only an advisory status for the national parliament, with no set schedule for implementation. Thus, it will be critical to sustain community engagement and support over the coming years as follow-up arrangements are put into place. The national government will also be keen to ensure that this does not set a precedent for other provinces or regions of PNG. In 2020, an election was held for the government of the Autonomous Region of Bougainville (AROB), with the presidency going to one of the strong secessionist leaders from the conflict period, who also was one of the strong subsequent peacemakers.

17 | International Cooperation

According to World Bank data, the level of official development assistance (ODA) received (in constant 2018 prices) declined steadily from 1975, the year of independence (\$1.15 billion) to \$0.69 billion in 2019. Australia provides 71% of the aid coming from OECD countries, or 58% including China. China's aid comes almost entirely as loans, while Australia's largely takes the form of grants. During the period under review, PNG depended heavily on international emergency funding, as much normal donor project funding was delayed during 2020.

The PNG government has sought to incorporate funding, priorities and activities from development partners into its Medium-Term Development Plan (MTDP 3 2018 – 22), notably under the auspices of the PNG Development Cooperation Policy 2018 – 22. Although development partners have emphasized their alignment with government priorities, they apply considerable discretion, aligning their funding with their own governments' thematic priorities and global programs. Despite the medium-term nature of the MTDP 3, frequent changes of government have led to policy and programming shifts, while major crises, notably around natural disasters and the COVID-19 pandemic in 2020, have left major projects unimplemented and necessitated requests for both substantial financing and institutional and operational support.

Effective use of support



Although Australia and other development partners have long sought to focus on core development assistance programs, the PNG government's growing fiscal shortfalls over the 2010s have often forced the Australian government to extend itself more broadly, including in the fields of health and education, law and order, and regional engagement.

PNG's strategic importance in the Indo-Pacific region has increased over recent years, particularly given the heightened trade, political and defense tensions between China and the United States and its traditional allies in the region, including Australia and Japan. This has been reflected in China's increased trade, investment and resource-exploitation interests in PNG, which in turn have resulted in financial assistance, as well as other more modest cultural and related engagements.

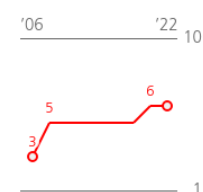
Australia's decision to establish an asylum-seekers' offshore detention center in Papua New Guinea in the mid-2010s gave the PNG government more leverage to shift the focus of its aid requests to major infrastructure projects, and away from institutional, governance and civil society support. China's growing involvement in the region has further shifted the focus of assistance provided by Australia and other donors toward transport and energy infrastructure. This changing strategic calculus has also encouraged engagement in PNG and regional affairs (including defense) by major regional players, notably the United States, Japan, New Zealand and even European participants.

Chinese assistance, notably through mechanisms such as the Belt and Road Initiative, has largely entailed loan financing for energy and transport and communications projects. It has also come with extensive conditions, such as use of Chinese contractors and employees. According to a study by the Institute of National Affairs (INA) and Center for International Private Enterprise (CIPE), there appears to be limited transparency in the contracting process, and little documentation available.

The Western response has included the largely Australian-funded fiber optic cable from Port Moresby to Sydney, completed in early 2020 (to displace a proposed Chinese-financed project); commitments in 2018 from Australia, the United States, Japan and New Zealand to help upgrade household electrification (to reach 70% of the population by 2030); and plans for a U.S. military facility in Manus province on the site of the detention center. Moreover, Japan has continued to fund bridges and other infrastructure, while the U.S. funds a broad spectrum of programs in areas ranging from trade support and education to governance, climate change and the environment. All of this has provided PNG with leverage and opportunities, although it needs to handle them cautiously.

Credibility

6



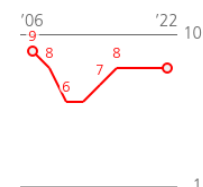
The Pacific Islands Forum (PIF) is the region's premier political and economic policy organization. It comprises 18 member countries, including Papua New Guinea, Fiji, the Solomon Islands, Vanuatu, New Caledonia, and all the smaller Polynesian and Micronesian Pacific Island nations, plus Australia (which contributes much of the funding) and New Zealand. The forum provides extensive regional support to member nations on environmental and resource management issues (including fisheries and maritime and land resource management and protection), as well as in the area of education. Notably, the University of the South Pacific maintains several campuses across the region. Fisheries management and climate change, sea level rise, and marine pollution have been major areas of focus for the forum for several years. The forum normally works on a consensual basis, with considerable camaraderie between the island leaders, although there is invariably some tension with respect to the larger (former colonial) powers even though they provide most of the funding. During the period under review, the forum proved unable to agree on who should succeed to the CEO's position, which rotates between the Melanesian, Polynesian and Micronesian nations. This slot was originally slated to go to Micronesia, but the majority instead selected the Cook Island prime minister for the post, resulting in a threatened withdrawal by Micronesian nations from the Forum. Divisive tactics by some Pacific fringe nations, for example with the aim of enhancing their distant water fisheries rights, or for other reasons, can readily undermine the PIF nations' share of resource benefits or influence on other priority issues, as pursued through the UN General Assembly and other forums.

Other important regional mechanisms include the Parties to the Nauru Agreement organization, which oversees the fisheries management performed by the main Pacific Island tuna resource owning countries, working collaboratively with the Pacific Islands Forum Fisheries Agency (FFA). There is also a Melanesian Spearhead Group (MSG) involving the Melanesian countries, although it has recently been comparatively inactive.

Both the PIF and the MSG raise issues related to the Indonesian presence and human rights in the West Papua and Papua provinces, or what was formerly called Irian Jaya. The groups engage in dialogue over whether to allow full or simply observer status in the Forum and the MSG to West Papuan Melanesians. Some Pacific island nations, including both Vanuatu and New Zealand, regularly raise issues related to decolonization and human rights abuses by authorities in West Papua, with PNG taking a diplomatic low-key approach.

Regional cooperation

8



Strategic Outlook

As PNG entered 2021, COVID-19 was looming larger, with case numbers rising rapidly in a second wave. The PNG government needs to develop the capacity to address this pandemic, with international support, including through effective awareness, controls and inoculation (via the COVAX facility). It must also focus on tackling governance and accountability challenges, stabilizing the economy and debt levels, and restoring and upgrading investor confidence and growth prospects. All of this will be necessary in order to generate needed jobs and revenue. The government should avoid unduly intransigent positions and should restore mothballed mining projects and their jobs (notably the Porgera goldmine), as well as at least one of the additional resource projects (notably Papua LNG) in the near future. This would provide both a short- and long-term economic stimulus and strengthen the investor outlook. Clarifying the currently ambiguous policy position with regard to investment, and particularly foreign investment, would be valuable.

PNG's underlying challenges include a lack of employment opportunities within a country with a disproportionately young population; low government revenue given the size of its economy, with taxation falling on a small segment of the community and a resources sector whose financial contribution has fallen below expectations; and an economy that has long been distorted by its resources sector, with a cost structure which undermines broader-based economic activity. Moreover, government institutions have lost credibility among the public and investors. Unfortunately, problems of poor governance have escalated across much of the public sector and political structure, from electoral processes to the government departments, provinces and districts that are responsible for many key services. State-owned enterprises, which manage many of the key utilities and manage the state's equity stakes in resource projects, also suffer from these shortcomings.

The next election will be in 2021. This provides only limited time and opportunity to address the critical outstanding issues, including strengthening the role, independence and accountability of the Election Commission. The incumbents, currently all male, who in many cases have gained office through money and pork-barrel political processes, have few incentives to reform the current system.

The rhetoric regarding taking back the economy is still looking inadequate. A priority needs to be placed on attracting scarce investment, growing the economy and expanding opportunities for ordinary Papua New Guineans. With prevailing rules on resource management, investments and jobs already readily circumvented, extending restrictions into a range of other fields risks discouraging needed investment, reducing business confidence and hampering job creation, without providing greater opportunities for local entrepreneurs. Instead, the government should focus seriously on addressing the real identified handicaps to business and investment in PNG, applying the rules fairly and creating a more even playing field.