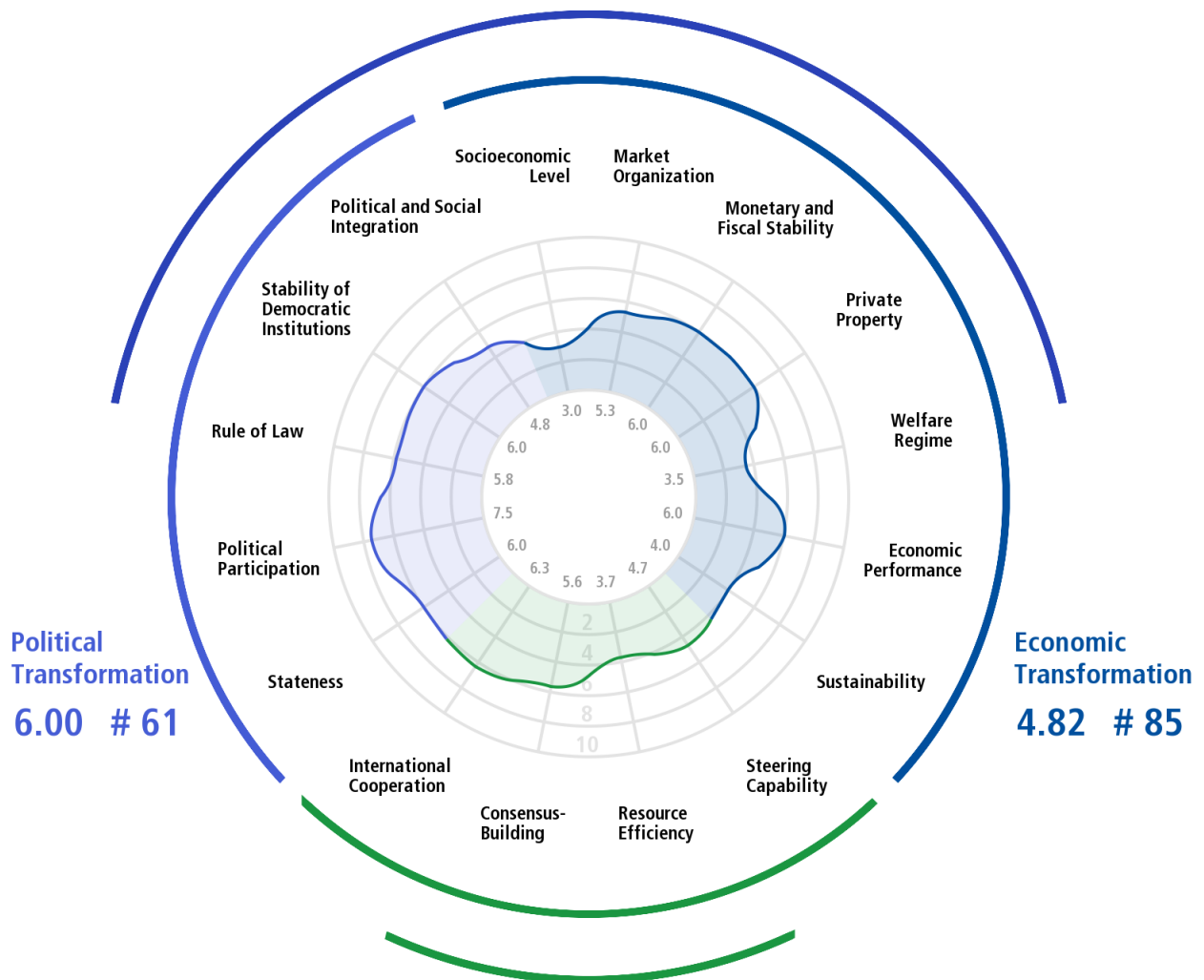


# Papua New Guinea

## Status Index

**5.41 # 67**

on 1-10 scale out of 137



**Political Transformation**  
**6.00 # 61**

**Economic Transformation**  
**4.82 # 85**

## Governance Index

**4.69 # 78**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. 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	<b>8.6</b>	HDI	<b>0.543</b>	GDP p.c., PPP \$	<b>4299</b>
Pop. growth <sup>1</sup>	% p.a.	<b>2.0</b>	HDI rank of 189	<b>155</b>	Gini Index	<b>41.9</b>
Life expectancy	years	<b>64.0</b>	UN Education Index	<b>0.432</b>	Poverty <sup>3</sup>	% <b>65.6</b>
Urban population	%	<b>13.2</b>	Gender inequality <sup>2</sup>	<b>0.740</b>	Aid per capita \$	<b>63.0</b>

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

In 2017, Papua New Guinea (PNG) conducted a highly flawed national election. Strong public backlash against the prime minister and his party, including student unrest in 2016 and the violent manner in which it was suppressed, together with the closing of universities, substantially diminished the number of seats won by Prime Minister Peter O'Neill's ruling People's National Congress (PNC) party. Nevertheless, prior to the first parliamentary session, many opposition members and parties performed an about face and joined the government's ranks, including a majority of members from Pangu, the second largest party. Nevertheless, there remains a significant opposition, including some well-educated, highly vocal and highly experienced members of parliament, able to raise and debate issues inside and outside the legislature, challenge procedures and actions and in some cases command a large and attentive group of followers. In January 2019, the prime minister stated in parliament that the district grants (the core funding for districts, administered through a system of political patronage) would not be available to those in the opposition, sparking one fiery opposition member to seek a constitutional challenge with the Supreme Court.

In recent years, Prime Minister O'Neill and his government have tended to engage in autocratic behavior, but also to take measures toward more open government, with the adoption of the Extractive Industries Transparency Initiative (EITI) process, the Open Government Partnership National Action Plan and commitments to freedom of information legislation and greater fiscal transparency, as well as measures to address the country's rampant corruption. However, the prime minister himself is widely perceived, inside and outside PNG, as being involved in shady dealings and increasingly authoritarian. Still, he does have loyal support, especially in parts of the Highlands Region, thanks to his perceived drive and decisive actions, advancing free education, launching various major infrastructure projects, notably in the capital, but also across the country, including among his own rural electorate, and hosting major sporting and international events. In 2016 and 2017, student criticism and dissent were silenced. In 2017 and 2018, there were efforts to manipulate and gag the mainstream media, social media and critics, with editors and engineers

sidelined and a senior TV journalist not fired only after wide public outcry. Public perception was that instructions for each of these actions came from the top.

Economically, the period under review has seen declining growth and growing fiscal problems for the government, although there seems to have been some turnaround in economic activity in 2018. With a second liquefied natural gas (LNG) project expected to reach the Front End Engineering and Design (FEED) stage in late 2019 and a further project (or project extension) and one (possibly two) major prospective mining ventures on the horizon, there is optimism for renewed economic activity in the next decade. At the same time, high costs keep non-mining activities subdued, although 2018 saw some economic revival. But future growth will depend on how well the extractive sector is delineated from the non-mining sector and how well non-mining revenue (once it finally materializes) is used to support investments and job creation in agriculture and other non-mining industries.

Ambitious government policies and expenditure plans have been undermined by a shortfall in expected revenue, resulting from a heavy fall in commodity prices, drought conditions in 2015/16, a series of major earthquakes in 2018 and concessional conditions granted to recent resource projects. The government sustained substantial deficit financing, with debt levels rising above allowable ceilings, and debt servicing costs accumulating and displacing other activities. Revenue shortfalls in 2017 and 2018 left health facilities without pharmaceuticals and other essential items and teachers frequently without pay. While life-threatening shortages were experienced in state services across the country, some extremely extravagant funding related to status projects was allocated, most controversially for a fleet of Maseratis and Bentleys flown in for the Asia-Pacific Economic Cooperation (APEC) leaders' summit. In the meantime, the government has been cooperative with key neighbors, like Australia, regarding the Manus refugee detention center, and regional players such as China, Indonesia and the United States. Each of these actors is waiting for PNG to engage in unduly favorable treatment toward the others, particularly with respect to the growing or dominant commercial and non-commercial presence of China in the Southwest Pacific region.

## History and Characteristics of Transformation

Prior to colonial rule, Papua New Guinea was a land of largely autonomous local communities, speaking over 830 separate languages. At independence in 1975, many communities still had little contact with the colonial government. Although some parts of the country and the small educated elite clambered for independence, the country was ill-prepared. A constitution was drafted, after lengthy popular consultation, which institutionalized the familiar Westminster, unicameral system of government. But most of the country still relied on traditional political structures and the Western system was alien. After initially rejecting proposals for political decentralization, the new government opted for a system of decentralization based on 19 provinces and the National Capital

District around Port Moresby; in later years, two more provinces were added. The provinces are sometimes grouped into four regions: Islands, Highlands, Momase and Southern (or Papua).

In its first decade, the country consolidated parliamentary democracy and an open economy, supported by a high level of development assistance, mostly from the former colonial administrator, Australia. Although there had been extensive gold mining during the colonial period, the cash economy was dominated by agricultural production and sales, including plantations producing various tree crops for the export market. The Australian government favored the development of the Bougainville copper mine partly as a means to provide a reliable major revenue source to finance the newly independent nation. From 1984, mineral exports overtook agriculture as the major export earner, but agriculture remained the major contributor to the gross domestic product (GDP) and provided formal and informal employment and livelihood.

Also, from the mid-1980s onwards, the new nation began to experience growing law and order problems. The closure of the Bougainville mine by armed insurrection 1989, leading to civil war on the island, caused wide social and economic disruption in the province and across the country. Widespread corruption, “big man” politics and a deterioration of law and order have caused the country to spiral downwards since then.

Every government since independence has been a coalition, frequently of several parties and independents – individual members of parliament have readily switched parties (and not on ideological grounds) and parties have switched coalitions. In 2001, an Organic Law on the Integrity of Political Parties and Candidates (OLIPPAC) was passed in an attempt to stop “party-hopping,” but it proved to be largely ineffective. Over the past two decades or so, the emergence of large coalitions, under governments led by Sir Michael Somare (2002–2007) and then by Peter O’Neill (since 2012), have fostered the increase of executive dominance over the legislature, which has been seen by many as a threat to the country’s parliamentary democracy. Parliament itself is not any better, with many members of parliament charged with corruption and others using their positions to enrich themselves.

The country is rich in resources (notably oil, gas, copper, gold, timber and marine resources, particularly tuna). However, general poor economic management and accountability, poorly negotiated resource agreements, problems with law and order, failure to sustain, let alone develop, basic infrastructure, weak investment in human resources, together with a high rate of population growth, have meant that improvements in living standards and service provisions have been marginal, and sometimes negative. PNG failed to achieve any of its previous Millennium Development Goals (MDGs).

On a positive note, the armed conflict in Bougainville was finally resolved in 2001 by the Bougainville Peace Agreement. Under the agreement, an autonomous Bougainville government was established and a future referendum was to be held on the political status of Bougainville, with independence an option. This referendum is to be held in 2019. Although the final say lies with the national parliament, resisting a likely clear-cut position by the population would be unlikely.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

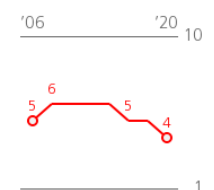
The state's monopoly on the use of force is consistently being contested by militant landowner groups, tribes and clans, and by criminal gangs in different parts of the country. During the 2017 national elections, state security forces were outnumbered and outgunned in the Southern Highlands by warlords attempting to force their way into parliament. Criminal gangs operate along highways and in provinces where piracy is on the rise, such as Milne Bay. Immediately after the Asia-Pacific Economic Partnership (APEC) Summit in Port Moresby, so-called disciplined service personnel rampaged through the national parliament, causing extensive damage, demanding to be paid their overdue allowances for providing security during the 2017 national elections and for the APEC Summit. In January 2019, criminal gangs consisting of over 20 armed youth, briefly took control of Alotau, the normally peaceful capital of Milne Bay Province.

Papua New Guineans – with the possible exception of the population of Bougainville, where an independence referendum is scheduled to be held in 2019 – accept the fact that they live in a nation-state with clearly defined territories. However, their primary loyalties remain with their primary kin groups that 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, with progressively declining level of loyalties in that order. The state has failed to provide for the basic needs of its citizens, so people across the country have withdrawn from active engagement with it, except during election times. Access to citizenship, however, is open, with indigenous Papua New Guineans automatically becoming citizens upon birth, and naturalization accorded to foreigners who qualify on the basis of long-term residency, level of investment and associated criteria.

Question  
Score

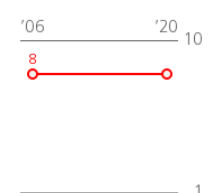
Monopoly on the  
use of force

4



State identity

8



PNG is constitutionally a Christian country. The Catholic, Lutheran, Anglican, United and Baptist churches and Seventh Day Adventists have all tried at different times to influence government policies. A church representative is invited to almost every government committee or council to participate in consultations and the decision-making process. This is less related to religion and religious dogma than to the inclusion of civil society and an expected level of integrity. The government has instituted a formal Church-State Partnership Program, while a “Theology of Development” statement guides churches’ involvement in public policy and service delivery. Churches provide over 50% of health and education services throughout the country, especially in rural areas, as well as transport and other services. This gives them the legitimacy to influence policy and serve as partners to the government.

The state’s administrative structures are established throughout the country, but basic services are not delivered evenly. Parliamentarians have effectively taken control of development funds, through the establishment of district development authorities (DDAs), which are now responsible for much of the delivery of local services. The disbursement of service improvement funds and delivery of services are widely based on nepotistic patronage criteria.

Over 80% of the population living in rural communities experience considerable difficulty accessing services and markets, owing to rugged terrain, poor and unreliable transport infrastructure, lack of fiscal capacity, mismanagement of state resources and corruption. Water and electricity are not accessible in most rural communities. Only 36.6% of the population are estimated to have access to safe drinking water, while 18.6% have access to improved sanitation facilities and 15.5% have access to electricity.

The physical infrastructure, mainly built in the 1970s by the Australian Colonial Administration, is in a state of disrepair. In particular, the Highlands Highway, which connects the coastal port cities of Lae and Madang to the seven Highlands provinces, where over one-third of the population lives and where many of the major mineral and petroleum projects operate, is in a very bad shape, owing to a lack of regular maintenance. It now requires extensive rehabilitation. Moreover, nearly half of the aid posts in the country were shut down over 20 years ago. Health facilities in the country, including referral hospitals, regularly run out of drugs, lack medical equipment, and do not have a sufficient number of doctors proportionately distributed; (45% of doctors are concentrated in the capital, where only 4% of the population lives, according to the 2011 national census. Port Moresby hosts the major national referral hospital. Many doctors work in private clinics catering to fee-paying clients from the formal sector, which is disproportionately concentrated in the capital. Even so, this level of concentration is hard to justify. The Catholic and Protestant churches operate health facilities in almost all provinces of the country, with varying degrees of efficiency in delivering services. Only the Christian mission-run schools and colleges have found ways to deliver quality education relatively consistently over the last 60 years, mainly through astute management, good governance practices and community engagement.

No interference of religious dogmas

8



1

Basic administration

4



1

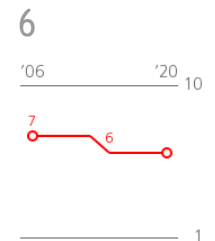
## 2 | Political Participation

Since independence in 1975, general elections are held regularly every five years, but serious irregularities occur during voter registration and ballot counting. Elections are largely conducted around local clan loyalties, rewards and personalities, rather than political allegiances. 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 and the absence of legal deadlines for the National Court to render their decisions regarding election petitions. Other election monitors such as Transparency International PNG, the Australian National University Domestic Observer Group, the Commonwealth Observer Group and the European Union Expert Election Observer Mission also indicated that in the 2017 elections, the basic principles of democracy and the integrity of the electoral process were compromised in several ways. The PNG Electoral Commission depends on provincial public servants to conduct elections. Administrative problems relating to a lack of quality control in recruitment and training, inadequate levels of funding and late releases of funds from the Finance Department, a lack of administrative capacity, and the desire to cheat the system often result in poor implementation of elections. In addition, the impartiality of the PNG Electoral Commission was brought into question when the electoral commissioner apparently used his reserved powers, for the first time in the history of PNG elections to declare the results for the Southern Highlands regional seat before all the votes were counted. Three members of the Election Commission, a representative from Transparency International Papua New Guinea, a professor of Law from the University of Papua New Guinea and an ombudsman, resigned in protest over the electoral commissioner's failure to provide information on the number of paper ballots cast compared to the total number of registered voters for each of the country's 89 open electorates and 22 provincial electorates.

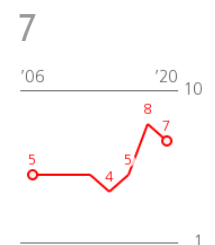
Democratically elected political representatives have considerable power to govern. However, individual power groups can create their own domains or enforce special interest policies.

The PNG national parliament is the legislative and supreme decision-making body in the country. Parliamentarians have effective power to govern, with provincial governors largely controlling provincial bureaucracies and resources, while open members of parliament control 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. However, governors from resource-rich provinces can and do exert considerable pressure on the national government to secure benefits for themselves and their constituents, especially landowner groups in areas where there are mineral and petroleum project. Likewise, large business groups and foreign interests tend to influence government policy for

Free and fair elections



Effective power to govern





self-gain, including 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 Rimbuan Hijau (RH) Group, which controls some 45% of the country's timber industry and a quarter of total timber exports.

The PNG constitution guarantees freedom of association and assembly, but the government occasionally uses excessive force against demonstrators. Despite the Ombudsman Commission and police announcing investigations into the 2016 police shooting of eight university students during a protest in Port Moresby, at the time of writing, no police have been charged or disciplined and neither body has issued a report. Moreover, landowners in forest areas demonstrating over loss of their land and resources in the Pomio District in East New Britain, the Kamula-Doso forest area in Western Province and Turubu in East Sepik Province have on occasion been assaulted by police or other officials at the behest of logging companies, despite instructions from the police commissioner that the police should not work for these companies. These may not be authorized police actions. But on the ground, officers in the pay of companies or individuals have the force of law.

In February 2017, as a result of protests by local landowners of Manumanu in Central Province, Prime Minister O'Neill commissioned an inquiry and suspended Minister of Public Enterprise and State Investment William Duma and then-Minister of Defense Fabian Pok over claims that they had profited from a multimillion-dollar land deal associated with plans to relocate the Port Moresby naval base. Later in 2018, the inquiry's report, though not formally released, became available. It confirmed the existence of many serious discrepancies and actions related to grand corruption. Despite the Ombudsman Commission and police announcing investigations into the 2016 police shooting of eight university students during a protest in Port Moresby, at the time of writing, no police officers have been charged or disciplined and neither body had issued a report.

Citizens, organizations and the mass media can and often do express opinions freely. However, the constitution specifies that there shall be detailed legislation to specify the application of freedom of information, allowing for some restrictions. But this legislation was never introduced and therefore various restrictions are sometimes applied arbitrarily by the government. The new National Cybercrime Act (2016) gives the government the opportunity to arbitrarily control and constrain social media. In fact, the communications minister threatened to shut down social media in 2018, including prior to and during the APEC Summit, invoking the National Cybercrime Act. Journalists are concerned about restrictions on editors and staff imposed by the state and, in some cases, by parent companies, seemingly on the basis of protecting business interests. The state broadcaster has received payments for broadcasts with restrictions imposed upon the questions that politicians may be asked.

Association /  
assembly rights

9



1

Freedom of  
expression

8



1

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, although some independent channels have sprung up over recent years.

The ownership of the two daily newspapers remains in the hands of private business. However, as with the private TV channels, corporate interests increasingly seem to create reluctance to pursue a firmly independent line, and to fuel apparent subservience to government interests. Senior editorial staff resigned from their positions in 2017 and 2018 after having failed in their efforts to uphold independent standards.

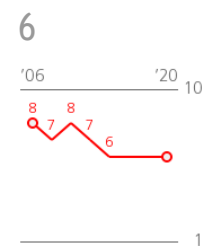
### 3 | Rule of Law

The separation of powers between the legislature, the executive and the judiciary is clearly spelled out in PNG's constitution. However, a strong executive government has increasingly rendered parliament ineffective. With a weak opposition, numerically, starved of resources, and with ineffective and largely absent parliamentary committees, important bills are regularly bulldozed through parliament, without meaningful debate and weak oversight by the legislature or the executive. Still, occasionally there are lively debates and questions asked in the House, and the post-2017 parliament has a more active opposition than in recent years. The judiciary in PNG is the saving grace of a government system that is riddled with corruption, although the lower courts have been tainted with nepotism and corruption.

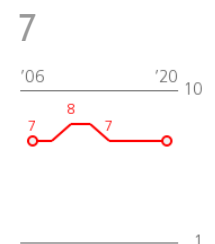
The judiciary has distinguished itself as a professional organization, with a reputable legal training institute for education in the law. There are clearly defined procedures for the appointment of judges and other officers of the judiciary, channels of appeal and court administration. However, the appointment process for the chief justice, judges and other constitutional office holders, including ombudsman commissioners and the chief executive of constitutional institutions such as the Commission for Police, 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 cabinet, rather than by an impartial constitutional appointments committee.

In principle, the judiciary has the ability and the autonomy to interpret and review existing laws, legislation and policies. There have certainly been cases of threats against judges, including a violent attack on one judge. As that same judge specified, with the level of funds and vested interests involved in some industries, notably forestry, it is important to provide checks even on judges, to diminish both threats and undue temptation. Furthermore, a shortage of trained judicial personnel causes lengthy detentions and trial delays. The courts are very slow in administering justice,

Separation of powers



Independent judiciary



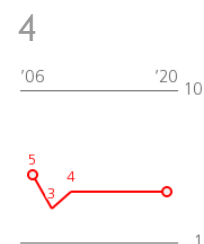
with backlog of cases going back several years. A large number of inmates in the overcrowded “corrective institutions” are awaiting trial, in some cases, for months and even years. Court papers and files often go missing during these long delays.

Moreover, for rural areas and even many urban communities, formal justice services are considered largely inaccessible, with lawyers and facilities remote and largely unaffordable. There is, however, an extensive network of village court magistrates across rural and urban areas (including settlements). These handle a wide range of cases related to land, personal disputes and conflicts and some consumer protection issues at the community level, using a process based upon traditional law and justice, including mediation, dispute resolution and minor fines. Although not meant to handle criminal or other serious cases, the village courts provide critical and timely service with regard to many issues, restrain local crime and conflicts, and link the population to the state. Village court magistrates only began receiving salaries in recently.

The public perception is that there is extensive corruption in PNG’s public sector. This view has been reinforced by successive Commissions of Inquiry and auditor general reports. Public servants and politicians who break the law and engage in corruption can be held accountable by legal prosecution, potentially under both the Criminal Code and Leadership Code, and public contempt through adverse media publicity. Nevertheless, it appears to the public and civil society corruption watchdogs, notably Transparency International Papua New Guinea, that very few interventions or prosecutions occur as a consequence. For example, Prime Minister Peter O’Neill has been implicated in the illegal payment of millions of kina to Paul Paraka Lawyers, but he has not been charged, despite a court warrant of arrest issued by the chief magistrate. Prime Minister O’Neill was also identified in November 2018 as owning WildCat company, which was responsible for mismanaging money for the construction of bridges in West New Britain Province, funded by the Asian Development Bank (ADB).

The (former) anti-corruption task force headed by lawyer Sam Koim actively pursued corrupt leaders and charged a number of politicians, public servants, lawyers and businessmen for their involvement in corruption. But only one high profile politician, Paul Tiensten, was convicted for giving bribes to businessmen when he was minister for national planning. The task force was abolished by the government (that had established it) after Prime Minister Peter O’Neill was investigated by it. On a positive note, several police officers were charged for human rights abuses and terminated in 2018.

#### Prosecution of office abuse



Civil rights are codified by law, but not properly respected or protected. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are in place, but not consistently effective. There is no evidence of discrimination based on religion, ethnicity, race or political preference, but widespread discrimination based on gender and sexual orientation.

Civil liberties are violated by both state and non-state actors. Law enforcement officials have been implicated in corruption, unlawful killings, extortion, rape, theft and brutality. Constitutional guarantees of due process are poorly upheld. Arbitrary detention is relatively common, and in practice, opportunities to challenge arbitrary detention are limited. Delays in the criminal justice system contribute to lengthy pretrial detentions. Prison conditions are poor, prisons are overcrowded, and the correctional service is understaffed. 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. There have been many reports of village houses burned, women, men and children threatened and abused, and villagers (and sometimes even their legal representatives) being locked up in shipping containers when the villagers are uncooperative. The issue of dispossession of customary landowners of extensive areas of their land and resources under the notorious Special Agricultural and Business Leases (SABLs) was highlighted in hearings and a report by the U.N. Human Rights Council.

On a positive note, the police have established family and sexual violence units in most provinces and more female magistrates have been appointed than served previously. Training and interagency coordination have improved.

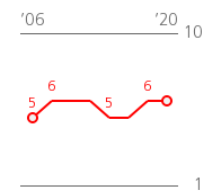
#### 4 | Stability of Democratic Institutions

Democratic institutions are well established, but their operations have been rendered ineffective by a lack of resources and widespread corruption. The parliament is dominated by a powerful executive. The high cost of election campaign hospitality forces members of parliament to spend their five-year terms recouping and amassing fortunes to be spent on the next election and, so, a vicious cycle of corrupt leaders, resulting in poor governance, continues. This is at the cost of representing the interests of the electorate.

Various government functions have been transferred to the provincial level without providing the appropriate levels of funding. Provincial governments thus struggle to deliver services. The National Economic and Fiscal Commission (NEFC) indicates that a few provinces have adequate resources to deliver core (health, education, infrastructure and agricultural services), but even those with the funds spend far too much money on administration and inadequate amounts on health, education, agriculture services and transport infrastructure.

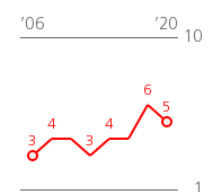
#### Civil rights

6



#### Performance of democratic institutions

5



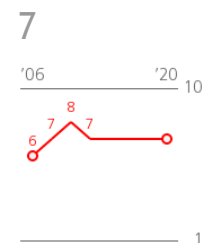
There are no relevant actors that would openly advocate against Westminster-style democracy. Yet, PNG's political arena is rampant with private opportunism. PNG political scientist Henry Okole explains that "spoils" or largesse is the main attraction for everyone. Opportunistic actions – from party endorsements of multiple candidates, mainly prior to the Organic Law on Integrity of Political Parties and Candidates (OLIPPAC), to party-hopping in parliament – directly contributed to the fluid nature of the PNG party system and unstable government coalitions. It was only after the OLIPPAC was adopted, and particularly with the creation Integrity of Political Parties and Candidates Commission (IPCC) to administer the law, that much-needed awareness was generated concerning the importance of political parties and the need for strong leadership, sound party platforms and so forth.

## 5 | Political and Social Integration

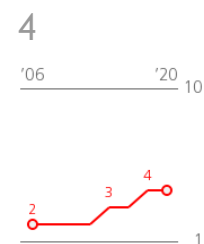
Political parties operate more like political factions at the national level, with small memberships and weak support at the grassroots level. They are difficult to distinguish ideologically. In fact, most parties in PNG are not founded on ideologies, belief systems, specific issues or historical circumstances 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 would have created separate party positions. 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. Voters sometimes come together in an effort to remove a party from power, although this is largely centered on seeking to remove the party's leader, as was the case for many, particularly young and educated voters in the 2017 election, who sought to remove the ruling PNC party from power. Attempts to strengthen political parties and ensure stability in the government through enacting the OLIPPAC legislation has not succeeded, with the Supreme Court ruling that binding parliamentarians to a single party (the one that endorsed them in elections), was a violation of the constitutional right of members of parliament to free choice. Electoral or constituency development funds (the District Services Improvement Program (DSIP) and Provincial Services Improvement Program (PSIP)) have been regularly used by successive prime ministers to placate disgruntled government backbenchers and to secure votes to pass important bills in parliament (and to ward off no-confidence votes).

Commitment to democratic institutions



Party system



The government has consistently recognized NGOs as a valuable alternative service delivery system. In higher-level policy documents such as Vision 2050, the PNG Development Strategic Development Plan 2010 to 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.

The NGO sector is large, both in terms of numbers and range of activities. In recent years, some civil society organizations have collaborated on environmental, basic services and governance or political issues, either with each other or the government. There are several business-focused organizations, which promote the views and interests of the private sector in public policy. National peak bodies include the PNG Chamber of Commerce and Industry (PNGCCI) that promotes the interest of private businesses, and acts as an umbrella for 17 Provincial Chambers of Commerce and Industry throughout the country. Other influential business-focused groups that seek to engage with the government are the PNG Institute of National Affairs, a not-for-profit industry-supported think tank, the PNG Business Council, the PNG-Australia Business Council, the PNG Manufacturers Council, Women in Business and the PNG Chamber of Mines and Petroleum.

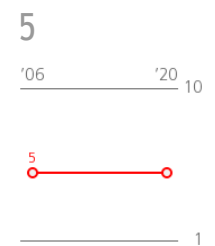
Landowner groups associated with a clan legally are organized and recognized; around 97% of land in Papua New Guinea is held communally by clans. This recognition allows those groups to act in court to defend the rights as owners of the land against the state and private companies, local or multinational. Some landowner groups work in a way to create benefits for their entire communities, while others keep the benefits for themselves, while leaving little for the rest of their clans.

No representative surveys are available. However, anecdotal and circumstantial evidence suggests that there is robust support for electoral democracy among some of the population (urban, coastal areas). While “modern” groups such as students and civil society activists value their democratic rights and opportunities, most people have little trust in the government and are dissatisfied with the low quality of governance by elected governments. Through forums and the media, people have voiced dissatisfaction with the lack of basic services, the lack of jobs, the slow pace of justice and perceived corruption, all of which create distrust of the state.

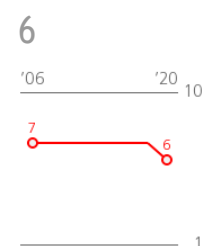
There is a relatively small number of autonomous, self-organized groups, associations and organizations, which are unevenly distributed over PNG’s territory. The cultural and political fragmentation inherent in the clan system is counterposed to the development of bridging social capital and complicates the process of developing national identity and solidarity. 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, bringing people together, especially young people from different regions, notably in national high

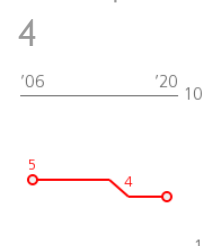
#### Interest groups



#### Approval of democracy



#### Social capital



schools, has diminished as secondary education has been increasingly localized and extended to grade 12.

Loss of land and opportunities by some local communities in urban centers, like the National Capital District, Lae and Madang, to migrants from other provinces and regions, has created tensions, particularly in 2018 in Madang. These tensions occur either when poor settlers from other clans or regions move onto customary urban or semi-urban land, or when wealthy outsiders, with seemingly disproportionate wealth or influence over government processes, acquire land. They give rise to a sense of threat and feelings of marginalization, regionalism and division. Church organizations are in charge of providing services, mainly in the fields of health and education. These organizations fill in the gap left by the state and are paid for it.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Poverty is structurally ingrained. In recognition of the widespread informal social safety nets provided by access to productive land assets, assessments of poverty in PNG have typically not been solely based on cash incomes, but have also taken account of the economic value of subsistence production. The Asian Development Bank and other institutions state the national poverty rate in PNG is approximately 37%.

Recent analyses found that poverty (in terms of capacity to provide household members adequate caloric intake) now also extends to certain urban areas, notably in the capital, where even accommodation in settlements entails high rents and poor access to fresh market foods. This increases living costs to extraordinary levels for a developing country, following several years of high inflation.

The U.N. Human Development Indices and Indicators 2018 Statistical Update states that the HDI value for 2017 is 0.544, ranking PNG 151 out of 189 countries. This is an improvement from 158 out of 188 countries in 2014. The Gender Inequality Index value for PNG in 2017 was 0.741, which is a marked improvement from 0.595 in 2015.

Between 2014 and 2017, Papua New Guinea's life expectancy at birth increased by 2.6 years, mean years of schooling increased from 4.0 to 4.6 years, and expected years of schooling increased to 10 years. Concern has shifted from school intake to quality of education, particularly after the introduction of (purportedly) tuition-free education, which contributed to very large class numbers and strained capacity among teachers and schools in terms of providing basic education.

Question  
Score

Socioeconomic  
barriers

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The main driver for PNG's relatively high HDI ranking is its GNI per capita, which was \$2,340 in 2017 (World Bank). However, this indicator is driven up by extractive industry resource wealth. To date, this has failed to translate into broader-based employment or economic opportunities, or, in recent years to revenue. If ranked by HDI education and health measurements alone, the country would be ranked much lower, indicating that, beyond economic growth, development outcomes have been poor.

There have been rising geographic disparities in favor of urban centers, particularly Port Moresby. Even so, the Gini coefficient for PNG in 2017 was estimated at 41.9, which reflects a steady improvement from 43.88 10 years ago (2009).

Economic indicators		2015	2016	2017	2018
GDP	\$ M	21723.4	20759.0	22277.7	<b>23431.6</b>
GDP growth	%	9.5	4.1	1.5	<b>0.4</b>
Inflation (CPI)	%	6.0	6.7	5.4	-
Unemployment	%	2.6	2.5	2.4	<b>2.4</b>
Foreign direct investment	% of GDP	0.9	-0.2	-0.8	<b>1.4</b>
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	4534.5	5181.0	5532.0	-
Public debt	% of GDP	29.9	33.7	33.1	<b>35.5</b>
External debt	\$ M	20386.7	19244.7	17221.0	<b>17718.4</b>
Total debt service	\$ M	1098.1	3321.1	2785.6	<b>2779.6</b>
Net lending/borrowing	% of GDP	-5.1	-4.7	-2.5	-
Tax revenue	% of GDP	15.2	12.9	12.9	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	1.7	1.4	-	-
R&D expenditure	% of GDP	-	0.0	-	-
Military expenditure	% of GDP	0.5	0.4	0.3	<b>0.3</b>

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.



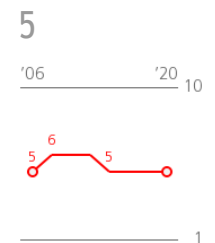
## 7 | Organization of the Market and Competition

Successive governments, parties and political and industry leaders have taken contrasting positions with respect to the application of the National Goals and Directive Principles embedded in the constitution. Large businesses, apart from the state-owned utilities and those owned by superannuation or and resource-landowner companies, are mainly foreign-owned. In most industries (apart from transport, retail, security and a few others), there is still limited competition, partly due to continued state monopolies on certain utilities and services, the relatively small and dispersed domestic market, licensing restrictions and established market controls. A large portion of agricultural production and marketing is conducted by the small informal sector, whose participants use 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 restrictions on financial transactions by entities without business and tax registration are reducing abuse. Many relatively large businesses (including foreign-owned businesses) operate substantially on a cash-only basis.

Recent initiatives have been launched to require greater national ownership. These include proposed amendments to mining and land laws and extending the Reserved Activity list, associated with the 2016 small medium enterprise (SME) policy and Foreign Investment Regulatory Authority Bill. However, these proposed reforms have largely been deferred for further consultation with stakeholders. In practice, apart from the nationalization of the Ok Tedi Mine (in 2012) and the state's equity entitlement in mineral projects, all major extractive enterprises, logging and most major agricultural enterprises are outright or majority foreign owned. There is Asian dominance in forestry and large-scale agriculture and fisheries, but also increasing Asian entry into the extractive industries. In recent years, however, there has also been a marked increase in the number of smaller enterprises.

There are general investment and revenue conditions administered by the Investment Promotion Authority (IPA) and the Internal Revenue Commission (IRC) and specific investment laws and conditions for certain industries. Major resource projects are negotiated individually, such as the Ramu nickel mine, and the PNG LNG project, which commenced production in 2012 and 2014, respectively, as well as the Papua LNG and P'nyang LNG projects and the Wafi-Golpu copper and gold mine, currently under negotiation by developers, the state and other stakeholders (including provincial authorities and customary landowners). There have been reports of malpractice in the allocation of petroleum/gas exploration licenses in recent years. The granting of timber permits and land leases has long been subject to uncompetitive and corrupt practices.

Market  
organization



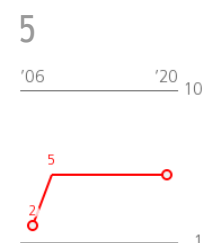
There have been reports of false declarations in company registration processes. However, since the process of registration and company returns has moved online, it is more transparent and available for vetting. In recent years, there has also been greater cross-checking between the IPA, IRC and other authorities, including under the auspices of the Extractive Industries Transparency Initiative (EITI), with plans also for the IPA to administer a registry of beneficial owners by 2020 (i.e., those who actually own, control and benefit from businesses).

In the World Bank's Ease of Doing Business survey for 2019, Papua New Guinea ranked 108th out of 190 countries. Starting a business in Papua New Guinea takes 41 days and six procedures with a cost of 20.5% of GNI per capita. The Starting a business score is 79.91 out of 100 (ranked 143rd out of 190 countries). Very low rankings were also assigned for enforcing contracts (174th), resolving insolvency (142nd) and trading across borders (140th); accessing credit remained the strongest measure (44th), although it should be noted that this is largely unavailable to small and agricultural businesses, particularly those using customary land, which comprises nearly 97% of PNG's land area. Some concerns raised by the World Bank relate to legitimate, though often ineffective or weakly applied, safeguards for controlling malpractice in certain industries, such as forestry and fisheries. Logging companies largely circumvent due process in accessing forestry resources, transferring pricing and avoiding paying income tax. Land administration has long been notorious for malpractice, with poor records and processes for allocation, notably through the Land Board, widely bypassed. Previously, the Lands Department was practically restrained to administering the small 3% which constitutes state land, largely in urban areas. Since about 2006, massive Special Agricultural and Business Leases (SABLs) have been issued for land held under customary ownership. After a Commission of Inquiry in 2011 – 2012 found some 5.3 million hectares of such SABLs to have been acquired improperly, the government directed the leases must to be canceled. But this has not occurred to date.

The Independent Consumer and Competition Commission (ICCC) oversees markets, including those serviced by SOEs (although much of their oversight role in telecommunications was transferred to the National Information and Communications Technology Authority), including markets subject to “price control.” The ICCC also administers consumer protection provisions. Its powers are currently limited and were subject to a review conducted in 2017 (for the Treasury/ADB). Resulting regulatory reforms are expected to strengthen its mandate.

The ICCC conducted various reviews in 2018, notably on mergers in international and domestic sea freight services. It blocked the takeover by China Navigation Company (a Swire subsidiary) of New Pacific Line Pte (Schoeller Holdings of Cyprus) on the grounds that it would unduly diminish competition. It also reviewed international air services in 2018 and is scheduled to review bus and taxi fares in 2019.

#### Competition policy



The financial sector is also heavily distorted with a single bank, BSP, controlling some 80% of the market (a higher percentage in rural centers). Over the years, the central bank (Bank of Papua New Guinea) has encouraged the entry of new participants, notably in the mid-1980s, but after some years, they sold out to long-established incumbents. Across the South Pacific islands, such consolidations have taken place to an even larger extent than in PNG, where three banks existed, joined in the 1990s by Maybank, but with limited market presence, and particularly catering to the needs of Malaysian businesses. Maybank was acquired by another Malaysia-owned firm, the Kina Group, in 2014. It operated as Kina Bank, which is in the process of acquiring the retail operations of ANZ Bank in PNG, as approved by the central bank, subject to certain conditions and also subject to ICCC determination.

A government committee was established in 2018 to review the rice industry, both production and marketing. A single Australian majority-owned enterprise holds a majority of the market, although far less than what it held before. The ICCC has conducted regulatory reviews previously and found that, although there is a level of market dominance, there are no formal barriers to entry. There is active competition among several suppliers, based largely upon rice imported from Southeast Asia. The government committee is also supposed to examine the challenge of domestic supply. Various controversial initiatives have been instigated in recent years to award exclusive control of trade to a firm owned by a fugitive from Indonesian justice, named in the Panama Papers, with a newly acquired name and instantly granted PNG citizenship. So far, these trading and production monopolies have not been granted by the government, while in the meantime modest initiatives to commercially grow rice domestically have progressed.

Following an apparent inconsistency in rulings by the Securities Commission over the foreign acquisition of the New Britain Palm Oil Ltd (NBPOL) between 2013 and 2015 by Kulim Malaysia Berhad (which was rejected) and by the Malaysian Sime Darby Plantation (which was accepted), the commission gained unfortunate notoriety in 2018 with a legal dispute over the question of who holds the post of securities commissioner. Contending office holders issued contradictory rulings with respect to the Pacific Balanced Fund (formerly Investment Corporation of PNG), a long-established PNG investment fund over the matter of who should manage it.

Intervention regarding the shipping market control is considered to be a test case for the ICCC taking a more proactive approach to the existence of monopolies or deficient competition. Whether firmer intervention is taken also with PNG's SOEs, as sought by the Treasury, remains to be seen. Many hold monopolies, or near monopolies (from ports to power, post, water supply, third-party insurance, etc.), and are generally considered to provide both poor service and low returns to the state (according to an ADB report), and widely lack accountability, sometimes running parallel budgets.

With a relatively small domestic market and high domestic transport and processing costs, most export goods are shipped out as mineral or agricultural raw materials. Most processed goods and a wide range of consumer goods, including diverse food products and some new (grain-based) staples, are imported. With the addition of LNG to the export portfolio since 2014, the total exports of \$6.5 billion in 2018 comprised some 40.6% of the GDP (using the Treasury's higher GDP figures). Imported goods were reduced to an estimated \$2.6 billion in 2018 (or some 10% of the GDP) by a weak economy, and especially by the shortage of foreign exchange available to businesses and consumers since 2016.

In 2017, the government introduced a National Trade Policy 2017 to 2032 to expand market access overseas to PNG goods and services; protect consumer welfare through the application of standards; create an environment for business in PNG; identify products where PNG has a comparative advantage; advocate against market distortion overseas; and support the entry of domestic SMEs into the market by delineating limits for foreign firms in certain markets. There are some mixed priorities in the policy concerning welcoming trade and investment, while delineating activities to receive protection from imports and overseas investors.

There is some alignment of the new trade policy with more protective arrangements for selected domestic products (notably milk/dairy products, poultry, flour, tinned fish, wood products) included in the 2019 budget (effective January 2019), with import duties raised from 0% or 10% to 25% to 30% (for timber products 30%–50%) and smaller increases for some other products, such as soap. The is also aligned with the more protective SME Policy of 2014, also reflected in the new Public Procurement Act 2018 and the Foreign Investment Regulatory Authority (FIRA) Bill. The FIRA Bill was put on notice to be tabled, as government legislation in the last week of January 2019. However, following a private sector outcry, the prime minister announced on January 31, 2019 that it would proceed after consultation with stakeholders over the details, prior to being enacted into law.

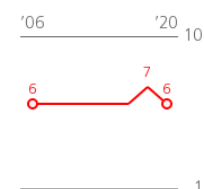
According to a 2018 IMF report, national banks are “well-capitalized,” and have a low number of non-performing loans, “a high return on equity,” and “are generally in a good position to absorb shocks.” At the same time, the report raised concerns over the management of foreign exchange and administration of bank liquidity, changing terms of government securities, and the smooth acquisition of one bank's operations by another.

Standard and Poor's reduced the long-term issuer credit rating for BSP (PNG's largest commercial bank) to B from B+, reflecting the weakening of the sovereign credit profile. At the same time, it affirmed the short-term issuer credit rating for BSP was B, but stated that “the outlook on the long-term issuer credit rating is stable.”

The financial sector is heavily distorted with a single bank, BSP, controlling some 80% of the commercial banking market (and a higher percentage in rural centers).

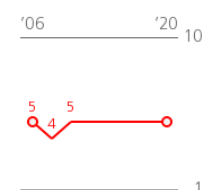
#### Liberalization of foreign trade

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#### Banking system

5



The market is shared with the ANZ Bank, Westpac and Kina Bank, several microfinance organizations, the National Development Bank (a state-owned lending, but not deposit-taking institution dependent upon government grants for some of its concessional lending) and other financial institutions (e.g., providing short-term finance and deposits, but not conducting foreign exchange trading).

The level of financial inclusion in PNG remains very low (estimated at 15–20%), particularly for women and persons living in rural areas. It has risen significantly since 2005 with the advent of microfinance facilities and more accessible mobile phone coverage. But the inaccessibility of bank offices and demanding administrative requirements for opening accounts makes financial inclusion hard for people largely living in rural areas, with little or no personal documentation or registered assets (despite the extensive land and resource assets held under community ownership).

PNG was gray-listed in 2014 by the Financial Action Task Force (FATF) for poor compliance with anti-money-laundering standards. Since then, it has passed five pieces of legislation and set up the Financial Analysis and Supervision Unit (FASU), operating out of the central bank, to replace the former unit controlled by the police. It has gained international assistance to operationalize capacity, working in cooperation with and oversight from banks and financial institutions.

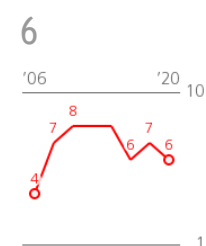
## 8 | Monetary and fiscal stability

Papua New Guinea has a constitutionally independent central bank, though de facto this independence is not clear. The exchange rate regime can be classified as an adjustable peg (against the U.S. dollar). Since 2015, the kina has remained stable at around 30 U.S. cents, with a small rate of depreciation in the last six months of 2018 (and slight appreciation during January 2019 against major trading currencies, other than the U.S. dollar).

While LNG exports since 2015 have pushed the current account into a large surplus at around 23% of the GDP, the offsetting deficit in the financial and capital accounts, driven largely by dividend and loan repayments by resource owners, has created a persistent excess demand for foreign exchange at the prevailing exchange rate. To conserve foreign exchange, the Bank of Papua New Guinea has rationed foreign exchange, allowing foreign exchange reserves to hold firm at around \$1.7 billion. This rationing has led to import compression, which has disrupted economic activity in the non-resource sector, as businesses find it difficult to access foreign currency to purchase inputs for production and investment activities. This has had a negative impact on non-resource sector growth.

Foreign exchange rationing has also led to a backlog of forex orders, estimated by a number of sources at around \$1 billion at the end of 2018. With the improvement in commodities prices in 2018, there is some evidence that the foreign exchange market

Monetary stability



may have moved closer to balance over the past year. The foreign exchange shortage led to a buildup of liquidity in the banking system, as firms are unable to repatriate profits or pay overseas invoices or loans. This excess liquidity makes the interest rate channel of monetary policy less effective. If the Bank of Papua New Guinea (BPNG) is to move to a more flexible exchange rate regime, the backlog of forex orders and the associated excess liquidity will need to be cleared in order for an interest rate policy variable to gain traction.

Domestic credit growth was around -3.6% in 2017, reflecting low growth in economic activity, but recovered to a more normal 7.0% in 2018, as economic activity improved. The inflation rate, which usually trends at around 6%, fell from 6.7% in 2016 to 4.7% in 2017 and is projected to remain at about the same level in 2018. The fall in inflation reflects subdued inflation among PNG's trading partners, a near-constant exchange rate, and lower economic activity in PNG.

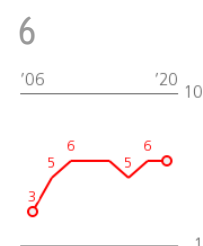
In view of the government's recent \$500 million, 10-year sovereign bond issue and as PNG moves into an era of increasing international capital mobility and exchange rate flexibility, an effective interest rate policy will become an increasingly important policy tool.

The budget deficit fell from 7.3% of the GDP in 2014 to 2.7% in 2017 and is projected to be 2.9% in 2018. The improvements have been 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.

PNG has in place a Medium-Term Fiscal Strategy (MTFS) for the period 2018–2022, which (together with the Fiscal Responsibility Act) places a limit on the ratio of government debt-to-GDP of 35% in the interim, before being brought back to the normal limit of 30%. According to current projections, the budget deficit will fall to 2.2% in 2019 and 1.7% in 2020, with the debt-to-GDP ratio forecast to fall to 35% in 2021 (or below 30% after 2021 according to Treasury forecasts). However, this will require ongoing fiscal discipline, and continued improvements in tax compliance.

Another development in 2018 was the issuing of a sovereign bond of \$500 million with a 10-year maturity and a yield of 8.375%. While this increases external debt as a proportion of the GDP, it allows the government to reduce its reliance on short-term debt at higher interest rates and also provides a source of foreign exchange. International lenders will demand greater fiscal transparency, which may ultimately help to exert greater fiscal discipline on the government. On balance, this is a positive development.

#### Fiscal stability



## 9 | Private Property

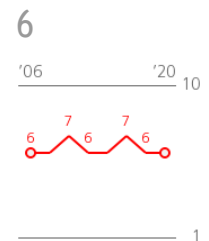
In general, Papua New Guinea respects private property rights, with a legal right for domestic and foreign private entities to set up, own, operate and sell businesses, subject to certain restrictions on foreign businesses, including an Investment Promotion Act that prohibits expropriation. Specific industries are also subject to sectoral legislation, like the Mining, Oil and Gas, Forestry and Fisheries Acts, which specify businesses' rights to conduct activities through licenses and permits, own, extract, process and trade the products secured from license and permit areas.

Most land in PNG is subject to customary 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. Land records are poorly kept and sometimes multiple titles have been issued as a result of maladministration and corruption. Land allocation via the Land Board is meant to operate on a competitive basis, while giving consideration to need and priority, but it can be slow and cumbersome, sometimes with surprising outcomes, with some properties excluded from advertising and allocated exclusively to certain favored businesses and individuals. Land disputes are a feature of interactions between customary landowners, and invariably spill over into interactions with government and major project developments. In recent years, the Magisterial Service has stepped up its capacity to address land disputes, although this remains weak. The courts have also stepped up their mediation services as alternatives to hearings in PNG's overburdened court system. Addressing land administration problems through the court system can be very time-consuming and circuitous, but usually achieves a fair outcome, given time and expense.

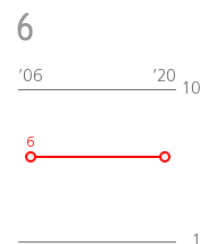
The state has a legal entitlement under the Mining and Oil and Gas Acts to acquire up to 22.5% equity in oil and gas projects and 30% in mining projects (on sunk costs). It acquired equity in the major mines, but has long since resold most these shares. At independence, SOEs enjoyed monopoly or dominant status in their fields. Initiatives to privatize SOEs commenced at the start of the 1990s, although little progress occurred until the early 2000s, when the financially strapped government made privatization a top priority. At the time, however, it only succeeded in privatizing the almost-insolvent, but market-dominant, state-owned commercial bank, Papua New Guinea Banking Corporation, to the Bank South Pacific and offloading state equity in extractive industries and palm oil ventures. Since then, there has been little further privatization.

Private business, including foreign direct investment, is encouraged. However, ongoing uncertainty persists concerning the Reserved Activity List, which forms part of the SME policy launched in 2016, increasing the list of business activities restricted to PNG-owned companies. SMEs and the Reserved Activity List cover a

Property rights



Private enterprise





diverse range of businesses, including agriculture, transport and all businesses with a turnover of less than \$2.5 million. Businesses and trade associations were highly alarmed and wrote a joint letter of complaint to the prime minister on January 24, 2019, after having discovered that the commerce minister had tabled three pieces of legislation on January 23, 2019, apparently without any prior warning or dialog with concerned stakeholders in the private sector or potentially affected government bodies. The legislation would establish a new regulatory body, the Foreign Investment Regulatory Authority (FIRA), and repeal most of the regulatory functions of the current Investment Promotion Authority (IPA) with respect to foreign investors, transferring these powers to FIRA. It would also grant discretionary powers to the minister to amend the Reserve Activity List as he pleases, providing severe avenues for abuse.

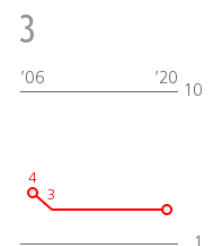
## 10 | Welfare Regime

Most people are employed outside the formal sector and are dependent upon their own land and gardens or other informal economic activities for their livelihoods. Or they depend upon family members and sometimes their wider clan and community, or in a few cases savings and, in a very few cases, insurance. The state does not provide any nationwide social protection system, only basic public health services. Workers in the formal sector tend to send an average of 10% of their salary and wages each year home to their families, clans or village communities. These funds are used for paying school fees, buying medicine, building homes and water tanks and fulfilling food and social obligations. This constitutes a considerable amount of money and social support provided by formal and informal sector workers.

NASFUND and Nambawan Super are the two major compulsory superannuation funds for private and public sector workers, saving for retirement in PNG's formal sector. PNG superannuation schemes manage mandatory individual savings accounts for workers in the public and private sectors until they retire (or 12 months after employment ends). The old age and disability pension implemented by the New Ireland Provincial Government is the only such scheme in the country, although at one kina per day, paid out inconsistently and unreliably, it hardly provides a living or reliable income.

The government of PNG has invested in other initiatives related to social protection, such as food security programs in the agriculture and fisheries sectors, post-disaster management, postwar reconstruction for Bougainville to aid recovery from 10 years civil war, an agriculture tax credit scheme for cash crops, and school scholarships for tertiary-level students provided by the Office of Higher Education.

Social safety nets





Structural exclusion is pronounced in PNG. Although there is now almost gender equality in primary schools, gender inequities remain pervasive at higher levels of schooling. Inequalities in educational attainment among adults and school-age children by expenditure groups have persisted over time. These inequalities reveal lingering disadvantages for women and girls that are masked in more aggregate totals. The government needs to focus on maintaining active policy strategies to increase enrollment rates in secondary schools, especially for lower-income groups, and to find ways to make high-quality tertiary education more accessible and affordable.

There are regional disparities in the delivery of services; some provinces have improved performance, while in other provinces and districts service delivery outcomes (such as supervised deliveries for mothers) have deteriorated. There are inequalities in employment between regions. More people are in wage employment in urban areas, the Southern and Islands Regions, with a much higher percentage of men compared to women.

The majority of both men and women engaged in any type of employment work in subsistence agriculture, especially in rural areas. Women are considerably more likely than men to engage in this type of work. Women in formal employment are more likely than men to work for the government, and men are more likely to work for private companies. Women's participation in politics is minimal. In the 2017 national elections, no female member of parliament was elected, compared to three women in the 2012 elections. Crime impacts women more than it does men. In surveys, 56% of men in rural areas and only 20% of rural women said that crime does not prevent them from doing anything. Women's livelihoods and income are particularly affected by crime in rural areas; 38% said that crime kept them from walking to the market, while 22.4% of urban women felt unsafe walking to work.

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 with regard to where and when they work. The downside is often poor working conditions. An audit identified a surprisingly high proportion of workers over the age of 65, particularly outside the main urban areas, and with a particularly high cohort in East Sepik Province (over 10%). This may result from an outmigration of young people. The proportion of workers reported as having a disability varied considerably among the surveyed localities. It was noted that the rate of disability was shockingly high (27%) among both female and male workers in the Highlands Provinces and among some of the Highlanders who had migrated to other regions. This appears to reflect a very high level of domestic violence affecting women and of violent conflict between men, with injuries leading to disabilities.

Equal opportunity

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## 11 | Economic Performance

The U.N. Human Development report for 2018 estimated GDP per capita for 2018 (2011 PPP) at \$3,823 and a GNI per capita of \$3,403. Economic growth has contracted significantly since 2016. Treasury estimates indicate nominal growth of 0.3% in 2018, a significant further decline from 3% in 2017 and 2% in 2016. Modest continued recovery was exhibited in mining early in the year, largely from stronger oil and some mineral prices, but this was stifled by the major earthquake that occurred on February 26, 2018, with extensive aftershocks, centered on the border connecting the gas-rich Hela Province with Southern Highlands and Western Provinces.

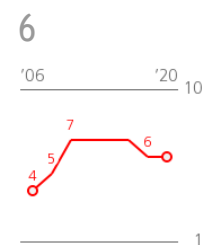
Headline inflation rates based on the consumer price index were recorded by the Treasury at 6.6% for 2016, easing to 4.7% for 2017 and projected to be 4.5% in 2018. Low levels of demand, resulting from low economic activity, low employment levels, a slowed decline of the currency partly from controls and restrained imports and limited CPI rises, including imported inflation.

The BPNG's employment index showed positive and sometimes strong formal sector employment growth from 2004 to 2013. From 2013 to 2018, employment has remained static or experienced slight declines. In 2017 and 2018, with market and policy uncertainty, there was little foreign investment or reinvestment in mining, except in exploration, or non-mining sectors. There, much of the limited investment that has occurred in real estate and agriculture has been by local companies (notably owned by superannuation funds). Foreign direct investment is dominated by the major resource investments, notably the ExxonMobil-led \$19 billion PNG LNG project constructed in 2011 to 2013. The next major expected projects are the Total-led Papua LNG project with frontend engineering and design studies forecast to commence at the end of 2019 and the Exxon-led P'nyang LNG project based upon production in Western Province.

PNG runs a strong current account surplus (\$5,343 billion for 2017, estimated by the Treasury at \$6,359 bill for 2018), particularly from a major positive trade balance. Foreign exchange reserves have declined steadily in this decade, but grew in 2018. Public debt rose from about \$1.9 billion in 2010 to an estimated \$7.9 billion by the end of 2018 (Treasury figures). Debt-to-GDP, which had stood at 72.3% in 2002, was reduced firmly through the 2000s to 17%, through steady economic growth and some debt repayment. However, it rose steadily to 32.4% in 2016 (figures), despite strong growth some years, associated notably with the PNG LNG project.

Total tax revenue declined substantially in 2015 and 2016 to \$2.4 billion, despite the country's largest extractive project, PNG LNG, having its first full year of production and exports in 2015. However, tax revenue grew to \$2.9 billion in 2018. Total revenue, including grants and other revenue, including dividends, reached \$3.7 billion in 2018, but continues to trail expenditures, necessitating continued public borrowing, which began in 2012.

Output strength



## 12 | Sustainability

PNG has a comprehensive set of laws, policies and strategies, many focused on sustainability. These include the 1991 Forest Act and the 1998 Fisheries Management Act (amended 2015), and more recently, Vision 2050, the 2014 National Strategy for Responsible Sustainable Development for PNG (StaRS) and the Medium Term Development Plan (MTDP) III 2008 to 2022, which emphasizes responsible sustainable development and a sustainable population. PNG has also agreed to the SDGs committing to an integrated oceans policy, also in compliance with the United Nations Convention on the Law of the Sea. Following the passing of national legislation in January 2016, PNG became the first country to ratify the Paris Climate Accord in April 2016, while submitting its first National Climate Action Plan (including requiring 100% renewable energy by 2030).

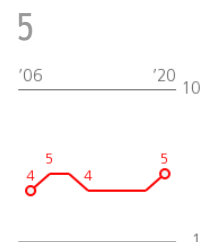
There is, however, clear readiness to overrule environmental impact assessments involving natural resource projects. In some cases, there are concerns over the extent to which the state steps back from its regulatory role, for instance, by buying major equity in a very speculative and controversial deep-sea mining venture in the Bismarck Sea. This project (Solwara 1) was on hold for commercial reasons in 2018, with most shareholders having withdrawn, but in January 2019, it gained a further extension of its financing. The issue of deep-sea tailings as the preferred waste disposal method for the Wafi-Golpu mine is controversial, and so is the long-planned and long-life Frieda river mine, with its planned joint hydro and tailings dam.

Since independence in 1975, the education system has undergone major reforms and grown to more than 12,318 institutions (2016). In 2018, around 2.2 million students were taught by almost 58,285 teachers at the elementary, primary and post-primary levels.

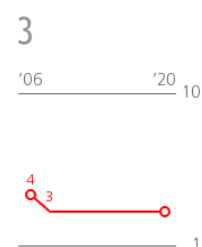
PNG has been successful in increasing access to schooling and some retention in enrollments. But there is a crisis, as the growth in school enrollments through grade 12 continues to far outstrip the growth of available post-secondary educational opportunities and opportunities for waged employment.

The government’s tertiary education institutions have been struggling since being largely sidelined by pro-primary education policies in the 1990s. This undermined the caliber of the entire educational system and its standards, particularly due to a lack of focus on support, selection and standards for primary and secondary school teacher training. Dividing the established government universities into four in the 1990s, with no supplementary capacity, merely stretched resources further, requiring proportionately greater expenditures for administration. The churches and some private institutions stepped in to provide two additional universities, with progressively enhanced facilities, and further proposed, in addition to providing extensive diploma and certificate courses, sometimes partnering with universities and

Environmental policy



Education policy / R&D



Technical And Further Education (TAFE) facilities in Australia. In addition to the six universities, there are state technical and business colleges, primary teachers' colleges, state nursing colleges, some church-run colleges and institutes, and a fairly small number of private higher education and technical and vocational education and training (TVET) institutions. Most of these providers are small in scale and severely lacking investment and capacity. Study opportunities in the tertiary institutions remain very limited, compared to demand. Facilities and standards in most institutions, including the main government universities and technical colleges, but also in some private institutions, are widely deemed inadequate, generally failing the institutional and course audits provided by the Higher Education Department and Board. There are opportunities available through the University of Papua New Guinea Open College and similar arrangements at other state universities. There are a limited number of apprenticeships, TVET training in Australia (the TVET SSP program), and the Asia-Pacific Technical College in Port Moresby. Some students go offshore to study (e.g., to the Philippines, Australia or New Zealand).

The national government's share of spending on education for the 2019 national budget appropriation was 32% of total spending. While there are a small number of private schools facilities in the urban centers, at the elementary, primary and secondary levels, many under the International Education Agency of PNG, the state and churches are the main providers of schools across the country, with teachers' salaries in the church-run schools also paid by the state.

## Governance

### I. Level of Difficulty

The structural constraints on governance include extremely difficult geography, an underdeveloped (and declining) transport system and physical infrastructure, widespread illiteracy and the state's consistent lack of administrative capacity and generally "weakness." Moreover, PNG is prone to natural disasters including earthquakes, volcanic eruptions, tsunamis, cyclones, river flooding, coastal erosion, landslides, droughts and frost. It ranks in the top six countries for the highest percentage of population exposed to earthquake hazards and for population exposed to severe volcanic risk. Landslide hazards are also particularly high. Finally, the rate of HIV/AIDS infections, although not pandemic, is increasing rapidly (over 95% of HIV cases in the Pacific Region are reported in PNG), with the National Capital District, Western Highlands and Jiwaka Provinces recording highest number of registered cases in the country. Sexually transmitted diseases, tuberculosis (TB) and malaria remain silent killers. PNG is one of the 10 highest TB-burdened countries globally, according to the World Health Organization (WHO).

Civil society in PNG is characterized by a majority of church organizations in charge of providing services, mainly in health and education. International missionaries arrived in the late 1800s and settled mainly in coastal areas. The churches are consulted at all levels of society, from local community level to the national level. Church organizations such as the PNG Council of Churches, the Catholic Bishops Conference of PNG and Solomon Islands, the United Church Assembly, the Baptist Union of PNG and many others engage in public policy issues. Responding to a multiplication of advocacy campaigns led by civil society in recent years, there is a tendency for the governmental to react with legislation like the amendments to the Environmental Act that limit the scope of CSO interference of in some strategic sectors. There has been an increase in civil society engagement around issues of gender-based violence. This is made possible largely through financial support from international donors. Local NGOs and the government have increased their capacity to provide services to victims, including multi-sector referral pathways to health, legal and counseling support.

Structural  
constraints

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Civil society  
traditions

6

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There is significant evidence of increasing confrontation emerging from disputes associated with alleged corruption and over the flawed 2017 election and the resulting political situation. The recent decision that parliament defer meeting from February 2019 to May 2019, is a reflection on the confrontational nature of politics since the 2017 election, which contributes to the confrontational politics dominating the country. The potential for Bougainville's independence indicates some risk of returning to insecurity in the future. The government's non-provision of committed funding is fueling ill-feeling among Bougainvillian leaders and people.

There is increasing inequality across PNG. Part of this is driven by reliance on the extractive resource economy and the unequal distribution and capture of wealth. A further cleavage relates to the increasing dominance of Highlanders in the coastal cities, buying up land and dominating businesses. Local people are intimidated by Highlanders. Population migration from rural to urban areas, but also from the highlands to coastal areas, has created the rapid growth of squatter settlements, especially around Port Moresby. These trends create tensions among local coastal ethnic groups, with some provinces seeking to repatriate unemployed people back to their home provinces.

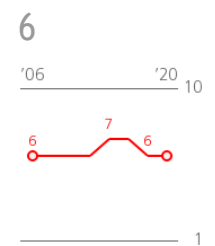
## II. Governance Performance

### 14 | Steering Capability

PNG has well-established political capability to develop long-term policies and plans, but the implementation of these plans is where things fall apart. For instance, the implementation of national agriculture and transport plans has not occurred. Financing for these ambitious plans continues to be significantly less than required. The assumptions that underpin these plans are often inaccurate.

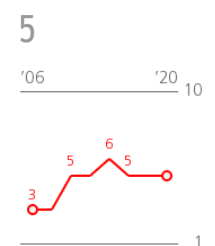
The purpose of the Papua New Guinea Planning and Monitoring Responsibility Act 2016 was to clarify the links and protocols in planning processes and to establish development frameworks: a national planning framework, a national service delivery framework, an annual budget framework and a Medium Term Development Plan monitoring and evaluation framework. In 2018, the government officially launched the Medium Term Development Plan (MTDP) III 2018 to 2027. A PNG Strategy for the Development of Statistics Implementation Plan (2018–2027) was launched in early 2018. This was designed to support the MTDP Monitoring and Evaluation Framework launched in 2016, which signaled an effort to improve evidence-based policy-making. The government is still in the process of setting up the relevant coordination unit and funding the implementation of these plans.

### Conflict intensity



### Question Score

### Prioritization



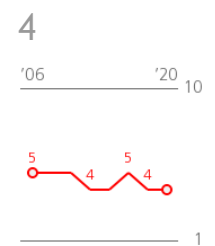
The recent World Bank PNG Economic Update (January 2019) commends the government for the MTDP III being a well-structured, clear strategy for moving forward with PNG's development on all fronts. However, the report raises questions about the ability of a capacity-constrained public sector to deliver on it. There is also limited clarity regarding the full fiscal impacts of the MTDP III. Without funds readily available to implement the whole of the MTDP III, implementation will remain weak. Moreover, there is an apparent disconnect between the Department of National Planning and Monitoring, the Department of Treasury, and the Department of Finance over the allocation and actual financing of the ambitious policies and programs. One prime example is the non-implementation of the National Transport Strategy, so vital for the country's development. Another example is the lack of an adequately funded national agriculture plan. Without such plans, the government can allocate money to transport and agriculture projects that were never priorities in the MTDP III and, in some cases, are bogus.

The National Strategy for Responsible Sustainable Development (StaRS) is another case of failure at implementation. The StaRS plan presented a comprehensive list of principles to be applied in the development process, but did not have institutional commitment across the government. There was no accountability mechanism put in place to monitor and report on StaRS' implementation. This situation applies to many associated policies related to sustainable development, including forestry, fisheries, land and climate change, as well as governance and anti-corruption plans and policies, which see little application in practice.

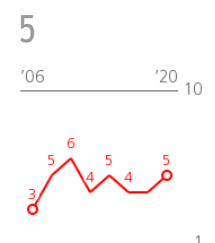
Furthermore, local governments do not have funds to operate. The lack of coordination between different tiers of government and agencies severely undermines its capacity to meet the needs and priorities of communities. Some initiatives, such as the Provincial Health Authorities, the Provincial Local Level Services Monitoring Authority and the Medium Term Development Plan II 2018 to 2022 are aimed at improving intragovernmental planning and coordination. The NEFC has helped highlight and slightly reduce the considerable interprovincial funding inequity.

The government demonstrates a willingness for policy learning. The Medium Term Development Plan III was prepared in 2018 after extensive consultations, as the main document to focus and coordinate the government's development objectives with strategies and financing. The government also reviewed the Development Cooperation Policy to coordinate support from its development partners. This 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 and also that the main new industry, gas, and even the planned Wafi-Golpu mine, provide far fewer jobs than traditional mines, once the construction phase is over. The government also learned lessons regarding how to improve social engagement, notably through the Development Forum process, although some more recent resource processes seem to have been hastily abbreviated, particularly over

#### Implementation



#### Policy learning



landowner identification, with invalid claimants receiving benefits, while those affected by projects were sidelined. Unless addressed, this will generate problems in the future.

The increasing roles of district development authorities and the granting of autonomy to selected provinces demand ongoing policy learning. Research is required to assess whether the shift in governance arrangements and practices makes service delivery more effective or not, as well as how to enhance accountability, economic productivity, and the supply and demand for labor.

PNG's development partners offer a wide range of monitoring, evaluation and learning through their programs and projects. Some donors are willing to coordinate efforts with others and be transparent in disseminating their evaluation reports and knowledge.

## 15 | Resource Efficiency

In recent years, the government adopted a strategy of fiscal expansion and incurred large budget deficits, partly due to an inadequate understanding of the impacts of the sharp decline in worldwide commodity prices and partly due to the end of the liquefied natural gas investment cycle and drought. In 2017, parliament revised the Fiscal Responsibility Act, which originally limited public debt to 30% of the gross domestic product (GDP). To accommodate the growing national debt the new threshold was set at 35%. A second fiscal rule, which requires PNG to target a zero average annual non-resource primary balance over the medium term, was also included in the amended Fiscal Responsibility Act of 2017.

As PNG's debt has grown, the annual cost of interest (i.e., debt service) on it increased from 4.8% of government revenues (including grants) or 1.1% of the GDP in 2012 to 13.2% of revenues or 2.0% of the GDP in 2017. The ratio of interest costs to revenues is expected to climb to about 14% in 2018, or 2.3% of the GDP, necessitating a major diversion of funds away from other budget priorities, including health, education, infrastructure, law and order and agriculture.

In recent years, government departments/agencies and other subsidiary bodies have not submitted timely financial statements to the Department of Finance, which then submits them to the Office of the Auditor General for audit and presentation to parliament, thus resulting in PNG's annual audit reports not being made available to the public in a timely manner. Although the constitution requires the auditor general to inspect, audit and report to parliament on PNG's public accounts at least once every fiscal year, it is evident that this does not occur.

Efficient use of assets

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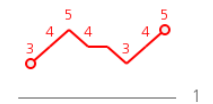
The Department of National Planning and Monitoring (DNPM) is the lead agency to coordinate policy and integrate development planning throughout the government administration. Horizontally, all lead agencies of the various sectors undertake planning to guide their growth and development. Vertically, plans are expected to align, beginning at the national level and cascade vertically downward to the lowest level of government, where state resources are expended as government intervention programs. The synergy of the plans is essential for horizontal interdependence between sectors and vertical alignment between different levels of government. This is partly addressed in the Planning Act 2015, which established the National Planning Framework, the National Service Delivery Framework and the National Monitoring and Evaluation Framework and links the national budget (resource planning) to the MTDPs through an annual budget framework paper. The MTDP III encapsulates the current government's policy intentions for growth and development over the next five years. It spells out the government's priority development goals (PDGs) aimed at achieving inclusive and sustainable economic growth and delivery of services. The PDGs are broken down into sector goals, each with their own performance targets and actionable strategies – required to attain goals and targets. The DNPM recently published Circular Instruction Number 1/2019 in the newspapers, instructing all heads of departments and provinces and District Development Authority CEOs to submit their five-year plans for vetting, to ensure alignment with MTDP III. Only approved sectoral, provincial and district development plans will be supported for funding through the Public Investment Program. This is how policy coordination is managed.

The Central Agencies Coordinating Committee (CACC), which was established in 1999, consists of the heads of the Treasury, Finance, Personnel Management, National Planning and Rural Development and is chaired by the chief secretary of government. The heads of the Department of Justice and Attorney General and the Department of Foreign Affairs and Trade are ex-officio members of the CACC. The CACC is meant to meet weekly and act as a single channel through which all submissions and funding proposals come to the cabinet. Its role is to coordinate and implement the annual government budget and to provide reports to the cabinet on the performance of individual governmental departments and agencies, including the provinces. It has the specific responsibility of monitoring the implementation of cabinet decisions. The CACC charter also states it will conduct investigations and any other such tasks required of it by the prime minister and cabinet. According to various reports, the CACC has not fully used the authority it has according to legislation to improve the government's performance. The CACC system is weak at present: information sharing between the National Planning and Finance departments and committees has been poor and there are problems maintaining a commitment to consistent and transparent processes in areas like the budget, policy formulation and performance monitoring. Furthermore, the system has been circumvented, and officials, politicians and others try to deal directly with the prime minister instead.

Policy  
coordination

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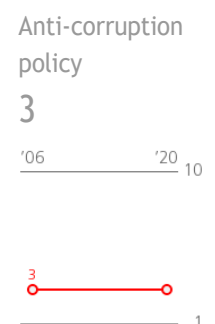
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In 2017 and 2018, there was a constant rotation of ministers responsible for petroleum and energy, managers and key player in the energy field, including management of PNG Power, with a clear tussle for control between the ministers responsible for energy policy, state-owned entities, including board appointments, and the prime minister himself, who seconded a consultant in his office as acting managing director. The tussle was apparent in the awarding of major contracts in 2018 for a new hydro plant for the Ramu system to a Chinese firm supported by Chinese finance, that PNG Power opposed for the high debt and cost burden it would impose. Likewise, disputes occurred between PNG Power and the energy minister over a proposed coal-fired power plant for Lae, pushed by an Australian mining and trading company, Mayur Resources, using intensive lobbying techniques. The plant would be in conflict with PNG's National Climate Action Plan, submitted to the U.N. in 2016.

There are some sectors in which the authorities work hard to develop a coherent set of policies and coordinate reforms. In the period under review, large gains were made in the education sector in coordinating among branches of the Department of Education, technical and vocational education (TVET) administrators, the Department of Higher Education, Science and Technology (DHERST), the Department of Labor and Industrial Relations, tertiary training institutions and the provincial education authorities to harmonize the education and training system and improve its quality and efficiency. The Department of Lands and Physical Planning has also taken steps to improve policy coherence, producing in 2018 a draft National Sustainable Land Use Policy and coordinating consultation for input from stakeholders. It also aims to develop a National Land Use Plan, set up a land information system and identify an appropriate land use management agency as well as appropriate procedures and best practices for using PNG's land and resources. The draft policy clearly identifies the policies, strategies, key issues and desired outcomes that must be addressed by a cross-sectoral and multi-sector approach. PNG's context is so complex and land issues so highly charged that a high level of skill in policy coordination and coherence will be required in the next 12 months.

The government has committed to an anti-corruption strategy that includes an independent anti-corruption commission, a more accountable public procurement mechanism and a range of political reforms. Some of these are pursued with commitment: A new National Procurement Act was legislated in 2018. Others, however, such as the anti-corruption commission have yet to materialize. Moreover, there is a tendency for such mechanisms to enable more centralized control over decision-making processes, with the same group of well-connected suppliers who overcharge gaining the lucrative government contracts. Citizens and the media do not have ready access to financial information. Audits of the overall public accounts after 2012 are unavailable. However, despite the difficulties associated with tracking corruption, trained investigators can still pull together enough credible data from civil and criminal courts proceedings, commissions of inquiries, national audits, public account committee hearings, Ombudsman Commission reports and independent



research, to formulate hypotheses regarding the different dimensions of the corruption problem, for testing and refinement.

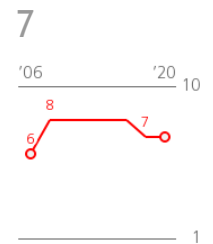
## 16 | Consensus-Building

PNG's national constitution, which legitimized the role of the state, provides for a state that is democratic, participatory and humane. However, there is a deepening conflict over the nature of democracy in PNG among the major political parties and political actors. The opposition contests that PNG is a democratic country and seeks opportunities inside and outside of parliament to question policies, laws and events. The opposition's time to raise concerns is often limited. For example, the prime minister's decision to delay parliament's initial session from February 2019 to May 2019 serves to curtail democracy.

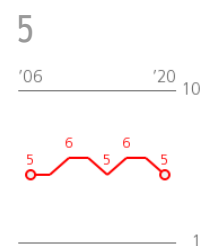
Political actors agree on working toward developing the country's market economy as a strategic, long-term goal of transformation. This was reconfirmed in the MTDP III and the economic and development policies presented with the 2019 national budget. A national reform agenda to strengthen the market economy is being developed. However, while government officials talk about promoting the market economy, the reality is that corruption distorts efficient and effective operation of the economy. Furthermore, the consensus on market economy is challenged by powerful actors. Recent examples include the nationalization of businesses, using the proposed Foreign Investment Regulatory Authority Bill, which sends negative messages to foreign investors, creating great uncertainty regarding the arbitrariness of ministerial powers. Similarly, reviewing the laws and policies related to land owned by foreign companies creates uncertainty among international investors.

The problem of transformative reforms in PNG is not the presence or veto power of anti-democratic actors acting strategically out of conviction or self-interest against the implementation of democratic or market-economic reforms. However, reformers cannot prevent all of the powerful actors, such as tribal groups' leaders and regional political leaders, from seeking control of the reform process, both at the policy-level and during the implementation process. It should be noted here that anti-democratic actors in PNG are mostly rent-seekers and opportunists rather than those who wish to replace liberal democracy with an authoritarian system.

### Consensus on goals



### Anti-democratic actors



The political leadership appears to exacerbate conflict cleavages and actively contests power and authority at the provincial and district levels. While the president of the Autonomous Region of Bougainville has worked hard to adhere to the timing set in the Peace Agreement for the referendum to be held in June 2019, the government did not adequately fund the region or preparations for the referendum, particularly in 2017 and 2018. The unfair withholding of full district grants (DSIP) from members of the opposition by the government also contributes to confrontational politics. These examples indicate that the political leadership has weak conflict management skills. When the leadership tries to prevent cleavage-based conflicts from escalating, it sometimes suppresses freedom of expression, uses money to keep dissenting voices quiet and employs divide and rule tactics. In some cases, its security personnel uses violent measures.

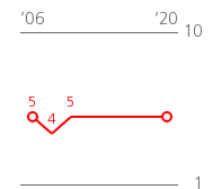
The political leadership allows civil society participation, encouraging civil society to take a constructive, tactful approach. Confrontational participation is avoided as the government does not like to be openly criticized for its performance. By and large, political leaders and bureaucrats appreciate having feedback from civil society.

Taking stock of the implementation of the Consultative Implementation Monitoring Council (CIMC) recommendations from 2014 to 2017 revealed that 24% of 156 recommendations had been mostly or fully implemented. This indicates that the current government is responsive in addressing public concerns to a limited degree.

The main issue with regard to conflict reconciliation and addressing historical acts of injustice relates to the conflict between the central government and the local population of Bougainville, an island to the east of PNG with a population of about 180,000 people and rich deposits of natural resources, especially copper. The conflict between PNG and the self-declared Bougainville Revolutionary Army from the late 1980s until the late 1990s was the longest and bloodiest internal conflict in the South Pacific that had killed something between 12,000 to 14,000 people. At the height of the conflict, between one-third and one-fourth of the population were internally displaced and lived in refugee camps controlled by the PNG Armed Forces. Negotiations brokered by New Zealand ended the fighting in 1997 and negotiations between the central government and the rebels led to the installment of the so-called Autonomous Region of Bougainville. In 2005, elections for an autonomous government were held. The real test for reconciliation, however, will be the 2019 independence referendum. While the elected Bougainville government supports autonomy within the state of PNG and the central government vowed to respect the result of the plebiscite, key figures in the secessionist movement have refused to participate in the peace process. This might rekindle troubles after the referendum depending on how decisive the outcome would be.

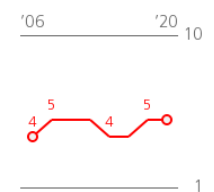
#### Cleavage / conflict management

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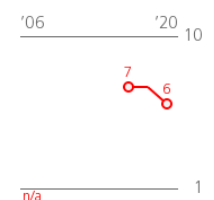
#### Civil society participation

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#### Reconciliation

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## 17 | International Cooperation

According to the World Bank, PNG received a total of \$527 million in official development assistance (ODA) in 2016. This figure comprised 2.64% of PNG's Gross National Income. Australia contributed 64.12% of PNG's total ODA.

Generally, PNG's political leadership uses international assistance for short-term gain or political expediencies, but fails to coordinate international assistance for long-term credible economic and social development. While large sums of international development assistance were made available to PNG for health and education programs and advances were made in reducing malaria and HIV/AIDS, in promoting gender equality in education and in mainstreaming climate change, the government had failed to achieve any of the Millennium Development Goals by 2015. Once donor assistance ended, the government did not sustain these achievements, due to the lack of continuity in funding, personnel and logistical delivery. Several key health indicators have declined as a result. Government funding to maintain assets built with foreign aid is not ensured. Roads, bridges, health facilities and classrooms gradually fall into disrepair.

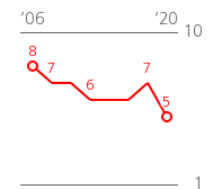
Moreover, due to weak implementation capacity, a great deal of aid is not effectively used. The European Union has had to decrease the amounts awarded to PNG several times over the past two decades, due to underspending by PNG's government. Donors avoid using the public financial system and often develop parallel project financing arrangements so that private contractors implement aid programs that they subcontract to local firms and consultants in order to deliver goods and services. This does not necessarily build institutional or public servants' capacity.

PNG's strategic importance in the geopolitics of the Indo-Pacific Region appears to have increased recently, reflected in the hosting of the APEC Summit, held in Port Moresby between November 16 and 19, 2018. The APEC event brought to the fore regional tensions between China and the other pro-liberal economies resulting in a standoff over the communique. PNG was able to maintain its position as "friend to all and enemy to none." Yet, there was controversy that surfaced before, during and after the APEC meeting, which may have tainted the credibility of the government. This was mainly to do with the massive infrastructure construction on roads in Port Moresby funded by China, the purchase of 250 luxury vehicles and payment for three costly cruise ships.

At the end of 2018, under conditions of increased regional trade, strategic competition and tension (notably between the U.S. and China), as highlighted during the APEC Summit in Port Moresby in November 2018, a commitment was made by the Australian, U.S., Japanese and New Zealand governments to finance and support PNG's government to deliver power to 70% of the PNG population by the year 2030. This reflects a competition similar to the one over providing fiber-optics connections, with the Australian government providing the majority of finances for a new cable to Australia (for completion in late 2019), although PNG's government has contracted with Huawei to provide domestic networking.

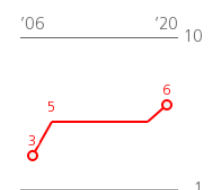
Effective use of support

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Credibility

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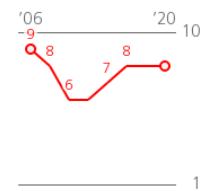


The Pacific Islands Forum is the region's premier political and economic policy organization. Founded in 1971, it comprises 18 members: Australia, Cook Islands, the Federated States of Micronesia, Fiji, French Polynesia, Kiribati, Nauru, New Caledonia, New Zealand, Niue, Palau, Papua New Guinea, the Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. Since 1989, the Forum has organized annual meetings with key dialog partners at the Ministerial level. PNG's economic connectedness (through trade, economic and financial linkages) with the Pacific island states (especially with the larger Melanesian countries and, in turn, their connectedness to smaller island states) forms a gateway to Asian economies.

However, it has been observed that PNG has demonstrated a tendency to assert its political strength bilaterally, such as in regional fisheries negotiations and its withdrawal from the regional Economic Partnership Agreement negotiations with the European Union (while at the same time holding the chairmanship of the negotiating bloc). Still, PNG can continue to play a strong advocacy role in support of regional positions, for instance, the positions of the Pacific Islands during the COP21 Meeting, and, by virtue of its size and resources, is well-placed to support progress on the forum leaders' decision to increase economic returns on fisheries.

Regional  
cooperation

8



## Strategic Outlook

Two of the major challenges facing Papua New Guinea concern the Dutch Disease and an increasing youth bulge. The political challenge is how to generate enough meaningful employment and economic opportunities in the formal and informal sectors for its fast-growing and largely young population. The extractive industries, notably, LNG, have undergone the greatest growth in the past decade and are likely to receive further major investments in the next decade, but provide very limited employment opportunities. Most of the needed jobs must come from the non-mining sectors, which have been relatively stagnant, apart from the production of palm oil, and to some extent fisheries, in recent decades. The trouble is that the extractive industries will undermine, rather than support, the non-mining sector, if appropriate measures are not taken. This is the so-called resource curse. This has happened in recent years, with PNG's foreign exchange being retained offshore, despite a major positive current account balance.

Another challenge concerns restoring credibility in government institutions among the public and investors. Problems of poor governance have, unfortunately, spread across much of the public sector and political structure, from electoral processes to government departments, state-owned enterprises and the districts, where previously provided services have been withdrawn. Some government institutions, especially church-run partnership institutions, and many individual government officials are performing better than before, but the credibility and integrity of public institutions needs to be addressed.

The negative impact of policy failure can be seen in the increasing lawlessness, particularly among young people, even in formerly peaceful provinces, who are frustrated with the lack of broad-based economic opportunities in the face of growing wealth distortion and the flamboyant extravagance of some members of the government. The government has shown itself ready to make some bold moves. The most notable of these is the introduction of tuition-free primary and secondary education, despite the clear problems associated with doing so, and the fact that this partly exacerbates the problem because of the lack of tertiary education capacity and stagnant formal sector employment over the past five years. It has also committed to an anti-corruption strategy and the creation of an independent anti-corruption commission, as well as a range of political reforms. The government seems to lay great store in its high-level international connections, interactions with global and regional political and business leaders for investments, loans and development assistance. PNG's government will need to apply suitable fiscal conditions, including in the resource sector, to generate adequate revenue and foreign exchange, earlier than it did with the recent LNG and mining projects, in order to more effectively deliver reliable public goods and services. This requires an informed public aware of the laws and due process, its constitutional rights, budgets and the purpose and use of public funds, ready to take officials to task, with institutions that support it when abuse occurs at the national or local levels.