

## **CHAPTER 5: AN ANALYSIS OF 'DRIVERS OF CHANGE' IN PAPUA NEW GUINEA**

### **5.0 Introduction**

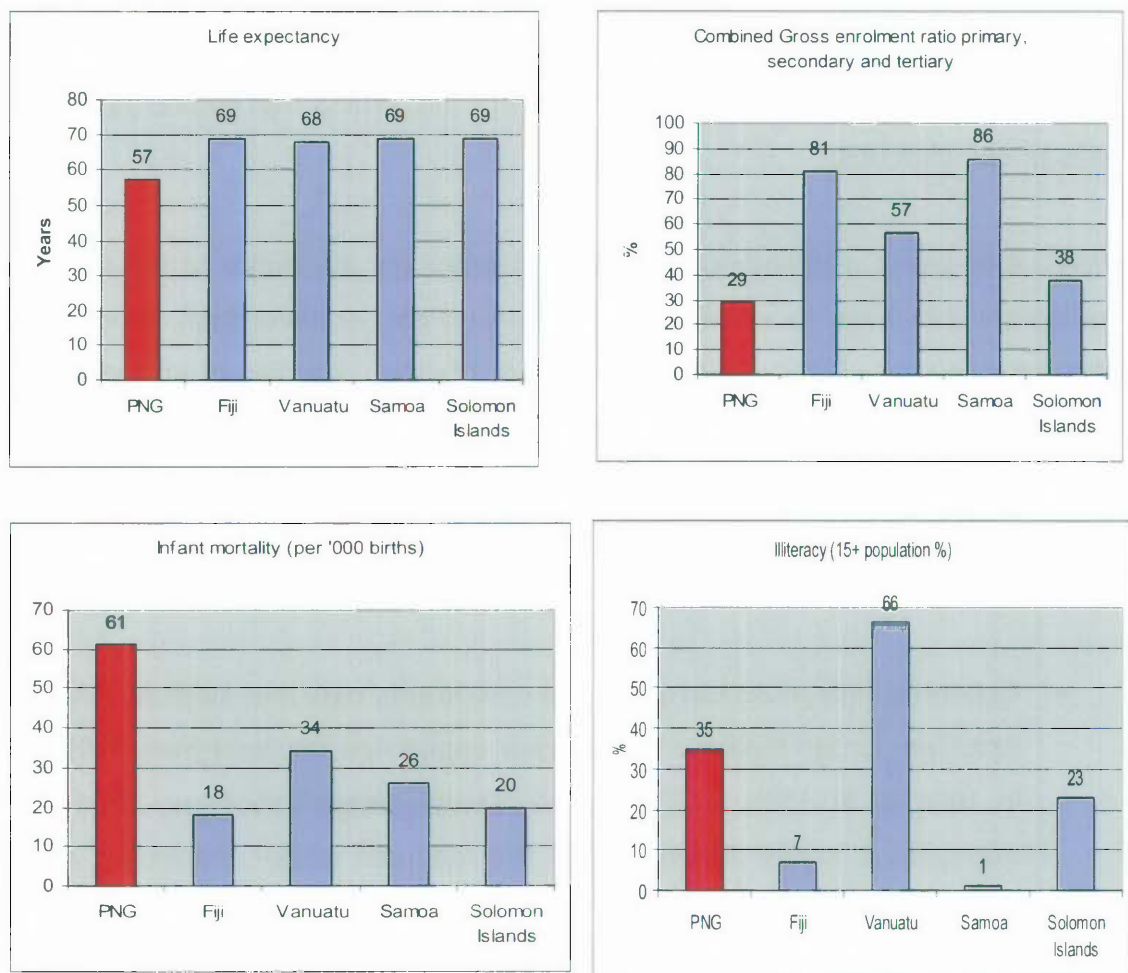
Papua New Guinea (PNG) is a country of considerable diversity – diversity of people, customs, traditions, and geography. Since gaining independence from Australia in 1975 its population has doubled to 5.5 million people (World Bank, 2005a:41). PNG's people speak over 800 languages (Walters, 1995 quoted in Okole et al, 2003:13) – most which represent distinct cultural societies each with its own set of governing structures. Prior to colonialism there were no indigenous institutions in existence to provide a common governing framework beyond the village and clan unit.

PNG is a lower middle-income ranked country on the basis of its economic indicators. However, its social indicators are on par, or lower than, median low-income countries. Basic statistics, as set out below, illustrate quantitatively the breadth and scale of the development challenges that face PNG. However, it is acknowledged that statistics available for PNG and the Pacific generally are of poor quality: in the case of PNG the last detailed survey was conducted in 1996 and most data since then has been extrapolated from this survey.

- Economic indicators have trended downwards over the medium term. For example, Gross National Income per capita has declined from \$US1,110 in 1996 to \$US510 in 2003 (World Development Indicators, 2003). The economy is highly dependent on the resource sector, especially mining and oil, which account for about 21 percent of annual revenues and 80 percent of export earnings (PNG Government, 2005). Export volumes of agricultural products (excluding palm oil) have been flat since the 1980's (Windybank and Manning, 2003:3-4)

- PNG's human development indicators have improved since independence. However, as evident from Figure 9 below they remain at the lowest level in the Pacific Region. In 2004 PNG was ranked 133 out of 177 countries on the Human Development Index and, according to the *PNG Millennium Development Goals Progress Report*, it is 'very unlikely' that the global human development goals will be reached in PNG by 2015 (PNG Government and UN: 2004:41).

Figure 9: Pacific Regional Comparisons of Development Indicators



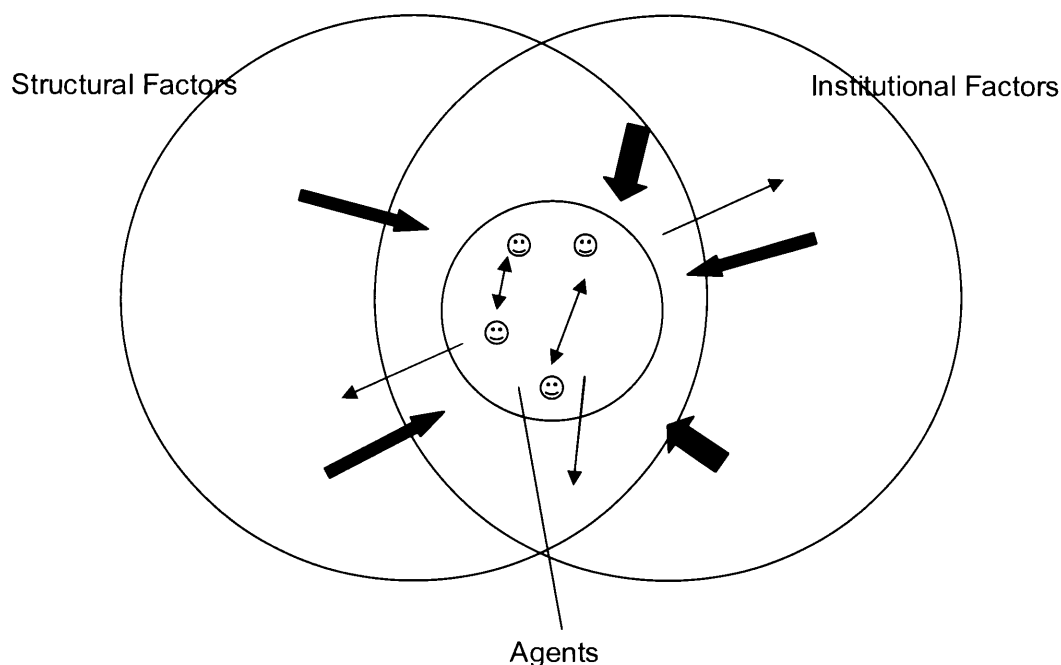
Source: DFAT, 2004:7, drawn from UNESCAP 2004; UNDP 2004; ADB 2004; and World Bank 2004.

- The rate of poverty has increased alarmingly from 37.5 percent of the population living under the poverty line in 1996 to a projected 54 percent in 2003 (World Bank, 2004:3). According to the PNG 2000 census, 87 percent of Papua New Guineans are rurally based, making up 93 percent of the poor (World Bank, 2004:1). The poor primarily depend on agriculture for their livelihood.
- PNG has a gini-coefficient of 0.47 – representing the highest level of economic inequity in the South Pacific (World Bank, 2004; PNG Government and UN, 2004:9). This places PNG as having the 18<sup>th</sup> worst level of income inequity out of 114 countries.
- PNG's scores on the World Bank's Governance Indicators have deteriorated from 1996 to 2004 on all six of the aggregated indicators, including voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption (World Bank, 2005f).

In early 2006, the UN reclassified PNG as a low-income country. However, prior to this recent reclassification on the basis of its declining economic and social indicators, and its weak institutional capacity, PNG had been widely considered to fall within the definition of a LICUS and fragile state (see, for example, Branchflower, 2004:24-27). The World Bank's *Interim Country Assistance Strategy* (2005a:1) notes that PNG exhibits some of the characteristics of a LICUS and is classified as a 'non-core' LICUS due to its poor governance, weak institutions and high levels of poverty. This broad recognition of PNG's particular development challenges has prompted a number of core aid donors to look towards new approaches to support its development.

Chapter 5 contains a 'Drivers of Change' (DofC) analysis (as outlined in section 3.2.4) on PNG. This analysis is based on a distinction between structures, agents and institutions (DFID, 2004d). Structural features include its natural and human resources, economic and social characteristics, and other non-institutional facts. Agents are defined as "individuals and organisations pursuing particular interests". As discussed in chapter 2, institutions are the "rules of the game" that determine the behaviour of agents, and are more susceptible to change over the medium term than structural features (DFID, 2004d). At the conceptual level, change is a result of small shifts in the relations between these 'drivers'; however, there is no clear causality in these relationships as they all interact dynamically and interdependently (Boesen and Therkildsen, 2004:5). Accordingly, agents can offer entry points for change, structural features provide the scope for change, and institutions mediate between agents and structural features. This process is set out in Figure 10 below;

*Figure 10: The Shaping of Change through Agents, Structures and Institutions*



Source: Boesen and Therkildsen (2004:5)

This chapter is informed by the author's own experience working and living in PNG from 2001 to 2005. Section 5.1 outlines the structural features of PNG and the likelihood for gradual shifts in structures to provide the impetus for change. Section 5.2 explores the potential for various agents, both within the state and outside the state, to induce positive and negative change. Section 5.3 assesses the resulting institutional environment and the scope for changing the relations between the state and civil society as an engine for reform. Section 5.4 draws strategic conclusions and considers where the greatest scope lies for influencing positive change paths in PNG. This could assist donors in focusing their efforts.

## **5.1 Structural Features**

Structural features of a society determine the scope for change in a society. They are generally a function of history, deeply embedded and often slow to change (DFID, 2004d). In PNG, structural features are a fusion of the formal and informal systems upon which the state has been built. Structural features include (but are not limited to) state-society relations, intergovernmental relations, level of economic development and demographic patterns. These features are now each discussed in turn, for the purpose of determining whether there is scope for structurally induced change in PNG.

### *5.1.1 State-Society Relations*

The formal state in PNG is characterised by a parliamentary democracy, based on the Westminster model, with three distinct arms of government - the legislature, the executive and the judiciary. The National Parliament is made up of 109 members, including 28 Ministers who form the Executive arm of government. There are 19 provincial governments (including National Capital

District), 1 autonomous region (Bougainville), 89 districts/electorates and 312 Local Level Governments (NEFC, 2005a).

The informal political system in PNG is based on traditional notions of the 'big-man', reciprocity and advancement of the in-group clan. Like many post-colonial states, PNG's transplanted system of governance structures are considered to be gradually decaying and being transplanted by hybrid governance structures that resemble a fusion of the formal and informal systems. Joseph Ketan (quoted in Morgan, 2005:4) in fact contends that "politics at all levels is organised along traditional structural lines". In common with Africa, the state in PNG is commonly described as a 'neo-patrimonial' system, where the state's resources are largely captured by the political elite and bureaucracy.

It has been widely argued that state-society relations are weak because the nation has never been properly formed in PNG (see Hastings, 1973, quoted in APSI 2004, 56; Regan, 2005:10, Dinnen, 2004:6). Its weak foundations derive from the absence of accountable principal-agent relationships, i.e. between voters and elected politicians, political parties and governments, and ministers and public servants. Okole et al (2003:5-20) conclude that the PNG parliamentary system bears only perfunctory resemblance to the Westminster system, yet because of the fruits that it bears has become the main focus of political competition. In fact, it is broadly accepted that the state has been captured by the culture (Kavanamur and Okole, 2004:13) and the "government and its institutions have been compromised ... by greed, naivety, and mismanagement at the top" (Okole et al, 2003:14). Over PNG's short history, political competition to win state office has intensified, with a 21 percent increase of the number candidates contesting the 2002 national elections compared with the 1997 election (Okole et al, 2003:18). In 2002, only one member received over 50 percent of the electorate's vote, while the majority of members won office on less than 19 percent of their electorate's vote (Okole et al, 2003:18).

Morgan (2005:10) argues that, contrary to common perception, it is not primarily incompetence but the structural constraints of culture and patronage politics that provide the biggest obstacles to strong institutions and better governance in PNG. Kavanamur (2001:9-13) drew on Hofstede (1997) also to pinpoint cultural traits such as high collectivism (*wantokism*) and high certainty avoidance as the major structural constraint to changes in state-society relations. For instance, May (2004:319-320) argues that as PNG's elite relate to both the civic and primordial public realms, where the morality of the latter trumps the former, the transfer of resources from the civic to the primordial realm is generally considered moral.

Can structural changes in the formal system change the incentives that determine state-society relations? There is some hope that the introduction of Limited Preferential Voting will go some way to encourage more representative political leadership and broader societal coalitions (Australian Broadcasting Corporation, 2006). However, Standish (2002:15-25; 2005:12), a long-term observer of PNG elections, argues that this attempt at electoral system reengineering is unlikely to change political behaviour in the short term. Morgan (2005:5-6) similarly contends that without the emergence of broad social cleavages around which parties can organise, parliamentarians are unlikely to change their behaviour, and the political contract between state and society will remain weak.

It has been argued that executive government's dominance of the state in PNG has been allowed to continue because no critical mass of constituencies have yet challenged the patronage politics that has pervaded the state (Morgan, 2005:6). This is also a function of the lack of understanding of the roles and responsibilities of MPs, and more generally the role of government, at the grass-roots level. Morgan (2005:4) further contends that given the greater legitimacy of the institution of the clan in comparison to the state, many constituents actually believe that member's actual duty is to divert the state's resources for local

needs. This culture exists at the local level, within the clan grouping. For example, within Incorporated Land Groups (ILGs) there are reported to be high levels of fragmentation and little accountability between the Chairmen who control the funds and the broader clan (Koyama, 2004). Koyama (2004:28-30) argues that the establishment of ILGs as a mechanism for the distribution of resource rents in the petroleum sector, outside the customary system, has led to significant principal-agent problems and elite capture as a result of the lack of legitimacy of these formal, yet local, institutions. This example illustrates that institutional failure, derived from principal-agent problems, are major constraints at all levels in PNG both within and outside the state.

As modernisation progresses in PNG, traditional allegiances will inevitably become weaker, or less relevant to people's lives, and leave more scope for the evolution of an alternative formal system. At this stage in PNG's development there is not yet evidence of a clear shift in allegiances from the primordial group to cleavages based on ideology and policy (Standish, 2002:24). Regan (2005:10) argues that the presence of churches, schools, local governments, plantation work, squatter settlements and even *raskol* gangs are providing linkages between groups, which is part of the organic process of the transformation to a national identity. Greater awareness of the role of the state may create some impetus for change, but any significant shifts in state-society relations will be a long-term process based on social and economic pressures (and incentives) at the local level.

#### *5.1.2 The Structure of Government and Resource Distribution*

There is considerable confusion about the system of service delivery responsibilities and financing arrangements between national and sub-national governments in PNG (Turner and Kavanamur, 2001:9; NEFC, 2005a). Conflict over intergovernmental arrangements, particularly relating to revenue sharing



from resource projects, was a major contributing factor to the secession movement in Bougainville in the late 1980s (see Quodling, 1991:90-95). Following the enactment of autonomy in Bougainville, the push by sub-national governments for greater financial autonomy from the national government has already begun to occur (NEFC, 2005a:47; Somare, 2003; Barter, 2004:21-22; Morris and Stewart, 2005:27) and seems likely to intensify.

The *1995 Organic Law on Provincial Government and Local-Level Governments (OLPGLLG)* is commonly perceived to have been a regressive reform that confused accountability structures between the levels of government and citizens, and as a result significantly contributed to the worsening of service delivery and governance in PNG (Turner and Kavanamur, 2001:10-11). With the failure of the 1995 reforms to improve the system of service delivery, the PNG Government is moving in the direction of decentralising to the district level (Somare, 2005). The political end of this 'push' is a function of the failure of the existing system to deliver, as well as reflecting the desire for 'open' members (totaling 89 of the 109 members) to gain direct control of part of the finances which are currently controlled by Provincial Governments (Barter, 2004:21-27). Given the existing weak capacity at district level and limited infrastructure (many district centres do not have reliable road access to the provincial centre, electricity and mostly need to access the capital for banking services), it is difficult to comprehend how this reform will lead to better service delivery in rural areas. If the reform continues to be pushed at the political level, without due consideration of costs and implementation capacity, it is likely to lead to further confusion about roles of different levels of government, worse governance and even lower standards of service delivery over the medium term. The structure of the state is following a regressive path in PNG and unless this path is redirected the state itself will drive further negative change in PNG.

### *5.1.3 Level of Economic Development*

Although PNG has experienced economic growth in nominal terms since 2003, real GDP is following a clear downward trend over the long-term (2005 PNG Government Budget, 2004; DFAT, 2004:3). PNG is a dual economy, where the state is highly dependent on the resource sector, whilst the majority of Papua New Guineans are dependent on agriculture for a livelihood.

Over the medium term, PNG has few opportunities for broad-based growth outside the agricultural sector. Low growth in the agriculture sector is highly attributable to poor government expenditure on the enabling environment and land tenure problems which have contributed to low incentives for farmers to produce. Deterioration of the rural road network acts as one of the most significant constraints to growth (AusAID, 2005c:4-6). Since the early 1990's, many rural areas (for example, Marawaka District and Okapa District in the Eastern Highlands Province), which had previously participated in the formal sector through cash-cropping have now reverted back to subsistence lifestyles. This is primarily because road access has been cut off as a result of inadequate road maintenance.

It is fair to say that one of the main causes of rural stagnation is the failure of the government to provide funding for essential service delivery, in particular rural roads. The 2005 budget is symptomatic of the structural imbalance, where 27 percent of total expenditure is on debt repayments and 22 percent on salaries and allowances, leaving less than 28 percent (K1.6 billion) for the delivery of goods and services (calculated from Table A3.9 2005 PNG Government Budget, 2004). It is also subject to high levels of maladministration, rent-seeking and corruption. This structural imbalance, combined with weak prioritisation and expenditure control, is growth-inhibiting, and has led to an increasing reliance on donors for core recurrent funding for services. Not until this balance is corrected

and more funds and political attention are focused on improving the enabling environment for growth is rural growth likely to act as an impetus for change. Structural adjustment is a medium to long-term process because it is conditional upon a successful public sector reform exercise to release funds for service delivery. Okole and Kavanamur's (2004:64-69) general conclusion is that major reform is unlikely to occur in PNG unless driven by the executive and until there is little choice but to undertake the reform. This conclusion suggests that PNG's structural imbalance may get worse before it gets better. The lack of progress on land reform, law and order, and access to finance has also acted as further structural constraints on growth. Thus, over the medium term rural economic development is anticipated to deteriorate.

PNG suffers from the 'resource curse', otherwise known as 'Dutch Disease'. In essence, PNG's heavy dependence (about 20 percent of the national budget) on revenues from mining and oil production has created 'easy rents' for the state and undermined the integrity of many of its institutions. Large windfalls in the resource sector can act to reduce the democratic accountability link between politicians and citizens as the reliance on broad based tax declines. In addition, resource rents reduce the incentive for the government to develop other parts of the economy. These conditions provide a ripe environment for poor governance and corruption. In PNG, rents from resource flows have failed to produce any basis for development in resource-rich provinces, and in fact acted as a catalyst for poor governance. For example, between 1992 and 2001, the Southern Highlands Province received over K740 million (Koyama, 2005:17) in resource flows. In this period, despite much higher levels of available funding, service delivery sharply deteriorated to levels lower than other provinces and its human development indicators are the lowest in the country (PNG Government and UN, 2004:28-39). Similar conclusions apply to Western Province which has been the largest beneficiary of resource sector rents.

The resource sector provides an important ongoing source of economic earnings necessary to maintain the PNG state. However, due to its enclave nature and the corruption opportunities that resource flows provide in PNG's weak governance environment, further development of this sector is not viewed to act as a catalyst for economic development in PNG. In fact, while poor governance persists, further resource development will likely act to further stimulate corruption, and possibly civil conflict because of the high rents it generates. For example, considerable state resources are being diverted to the negotiation of the PNG-Australia Gas Pipeline, in particular to consultations and resolution of disputes with landowners (*The National*, 6 February 2006).

Broad-based economic development through the agriculture sector has the potential to facilitate pro-poor economic development. However, rural infrastructure needs to be improved first so that domestic economic exchange is facilitated which in turn could provide a platform for export growth.

#### *5.1.4 Demographic Patterns*

PNG's high population growth rate of 2.7 percent per annum (PNG Government and UN, 2004) is placing enormous pressure on essential services and productive land. The population is projected to double by 2030 (National Statistical Office, 2003). However, with the growing incidence of HIV/AIDS both population and economic growth will be significantly affected.

In 2003, PNG's HIV/AIDS infection rate reached a generalised epidemic level with an estimated national prevalence rate of 1.7 percent (NACs/NDoH 2004, quoted in AusAID, 2005b:3). The World Health Organisation has projected the infection rate could rise to 20 percent of the population by 2010 (AusAID, 2005c:4). The HIV/AIDS epidemic is expected to have a significant impact on productivity of households and workers, and overburden the already overstretched health system (PNG Government and UN, 2004:29). The impact of

HIV/AIDS is projected to reduce economic welfare by between 12 percent and 48 percent by 2020 (Centre for International Economics, 2002). On the basis of these emerging statistics, the PNG Government and the UN (2004) have concluded that HIV/AIDS has become a “destabilising factor of the first order and the single most important challenge for development in PNG”. Based on present attitudes and behaviours there is no indication that HIV/AIDS will stabilise soon (PNG Government and UN, 2004; AusAID: 2005c).

With over 85 percent of Papua New Guineans residing in rural areas, the challenges of encouraging a national identity and the delivery of services to a dispersed population are immense. Since the 1980s, the decline in rural services and economic opportunities has led to a small migration to the cities of Port Moresby, Lae and Mt Hagen, and to economic enclaves such as mine sites, logging camps and oil palm plantations. Population densities in some parts of the country are causing land shortages and conflict, leading to an increase in urban migration (UNDP, 2004 quoted in DFAT 2004:8). PNG also has a young population. In 2004, an estimated 41 percent of the population was under the age of 15 (DFAT, 2004:8). Youth have few opportunities for advancement in a society where there is no formal sector employment growth for school and university leavers, and where agricultural opportunities are limited due to poor infrastructure. In urban areas, limited opportunities for youth are a major determinant of crime, with an estimated 15 percent of the population relying on crime for a livelihood (Levantis, 1997:73).

Population pressures are a determinant of change in PNG. PNG's 2.7 percent annual urban growth rate (Storey, 2005:1) is broadly considered to be high, and presents both challenges as well as an opportunity for social change. UNDP (2004 quoted in DFAT 2004:8) projects the urban population (with the majority residing in settlements) to grow to over 30 percent of PNG's population by 2015. Assuming some economic growth, rural-urban migration is expected to increase economic exchange and the growth of the informal sector over the medium term.

This organic process, however, will be frustrated if PNG does not overcome some key structural constraints. To date, the state's poor management of urban migration and the lack of consensus on land ownership policies have constrained migration. For example, in 2003 the Provincial Government responded to popular demands from the Madang town constituency by evicting settlers, many who had squatted for over 20 years, and removed a significant proportion of the workforce from town. This scenario has been a common occurrence in PNG. Furthermore, following current trends, settlers are likely to continue to organise themselves along clan lines in urban areas.

Demographic factors may create pressure on the political leadership to introduce reforms. However, despite the prospect of increased political pressure, there are few options to mitigate these pressures in the current environment with limited funds for actual service delivery and stagnating growth in real terms. Not until the growing urban poor, and the associated informal sector, begin to organise themselves around economic and service delivery issues, rather than on clan lines, are demographic changes likely to have an impact on political governance in urban areas. In PNG, where the nation-state is embryonic this is a long-term process.

#### *5.1.5 Conclusions on Structural Features*

These structural features of society have inhibited PNG's development and seem destined to continue for some time. The most dominant feature is the existing institutional fabric which has developed to reinforce the role of the political elite. The social contract between the state and society needs to be first strengthened before there is scope for structures to be under pressure to change. Population pressures and economic opportunities are likely to create some positive pressures for incremental reform over the medium to long-term.

## **5.2 Agents of Change**

Agents are characterised as individuals and organisations that pursue particular interests. Research concludes that actor-orientated initiatives alone cannot transform a state; however, agents are an important entry point because their actions can generate institutional change and reform (DFID, 2004d). This section explores the potential for a series of actors in PNG - within the state, outside the state and those actors that inhabit the space between state and society - to induce change in PNG. Discussion is primarily based on existing research and analysis of demonstrated behaviours through working within the aid sector in Port Moresby, the highlands and islands regions.

### *5.2.1 Political Level Agents*

Political relations within the formal system in PNG are complex. Due to the rural nature of the vast majority of electorates, political expectations are overwhelmingly local in nature and premised on the ideology of delivering public and non-public goods for their supporters. Political office at the national, and to some extent local, level has also become a well established mechanism for self and group enrichment, and for enhancing both 'big men' and tribal status (Morgan, 2005:4, Standish, 2002:8). Ron May (quoted in Morgan 2005:4) maintains that politicians may believe that the accumulation of wealth is an essential element of their political status.

Political actors in PNG need to operate between the formal political institutions of the state and informal relationship-based systems that make up PNG societies. Political actors wear many hats and have a tendency to be driven by power and self-enrichment. On the other hand, PNG politicians are a function of the micro-societies from which they emanate, where the primary expectation is reciprocity to the clan. As a result, a politician's core motivation (both in terms of cultural obligations and self-interest in reelection) is to secure funds to provide for their beneficiaries, rather than notions of the national interest.

It is well understood the best means to satisfy these demands is to be part of executive government, preferably in a portfolio with discretionary expenditures that offer opportunities for rent-seeking, such as Forestry, Mining, Fisheries, Petroleum, National Planning or Finance. Political competition to be part of the executive government drives instability in PNG. Even after the *Organic Law on the Integrity of Political Parties and Candidates* (OLIPPAC) was enacted in 2001 with the intention of creating more stability in Government, members crossed the floor in 2004 to attempt to force a change of government, motivated by the chance to hold office and better access to the state's resources (see Barker, 2005; Gelu, 2005). Since less than 20 percent of sitting members were returned in 2002 (Standish, 2002:10), it is reasonable to assume that members with short-term time horizons will seek to maximise rent-seeking during their first term rather than push for policy reform that will not win them favours in their electorates.

Are political level actors likely to be drivers of change in PNG? The answer to the question is overwhelmingly 'yes', political actors will drive change in PNG, but there is no guarantee that political actors will enact changes that are in a positive direction. There will be enlightened individuals pushing for reforms in the national interest. However, their potential to induce major reform is limited. Where reformers hold influential positions they have scope to minimise the extent which the state goes down regressive paths. For example, since 2002 the Treasurer has played a tight expenditure control role, and is perceived to have been relatively successful at reducing rent-seeking at the cabinet level. A reform-minded PNG Cabinet Minister has opined that regardless of the qualities of the Prime Minister, Parliament needs a critical mass of at least 30 percent of pro-reform members to support real change, but estimates there are currently less than 15 percent of existing members who are supportive of reforms in the national interest (Akoitai, 2004).



Kavanamur and Okole's (2004:10-20) review of adopted reforms (i.e. changes in the formal system) revealed that reforms will only be adopted with the strong support of the executive. This review considered that the executive will adopt reforms under two sets of circumstances. The first set of circumstances is where reform agendas coincide with the political interests of the majority of members. An example is the 1995 OLPGLLG, which was introduced on the basis that service delivery at the provincial level was failing. The impact of this reform is generally regarded to have taken PNG down a negative path as it increased the power of national MPs over decision-making at the provincial level. The second set of circumstances where reforms have been adopted is where the costs of not adopting the reforms were higher than the costs of reform (Kavanamur and Okole, 2004:64), hence following a path of least political resistance. Kavanamur and Okole (2004:22-36) consider that the adoption of financial liberalisation reforms in 1994 and introduction of Limited Preferential Voting in 2002 are examples of reforms that have led to positive change. Despite these few examples of positive reforms, Kavanamur and Okole (2004:68) conclude that political agents' lack of priority to national interest and limited understanding of the need for reform act as a major constraint to change. This conclusion suggests that collective political leadership at the national level is not likely to be a catalyst of positive reform in PNG any time soon.

In reality, it is only over the longer term that political agents could act to influence positive reform. However, a shift in the structures and beliefs at the local level, first needs to occur to influence the nature of governance within the formal state. Morgan (2005:10) concludes that political change will be a "long and arduous process [that is] doomed to failure without associated shifts in local public perceptions about acceptable political behaviour".

### *5.2.2 Public Service*

The public service consists of a collection of individuals and organisations. PNG has four levels of government with the public sector operating at the national,

provincial, district and local level. Since independence, the institutional machinery of the public service, installed under Australian colonial rule, has broken down at all levels. It has become increasingly politicised, disempowered and bloated (Okole and Kavanamur, 2004:29, 62). At the national level, despite attempts to improve policy coordination through the Central Agencies Coordination Committee, Departments often work against each other and policy reversals are common. Relations between politicians and bureaucrats, when the latter are not directly appointed by the relevant Minister or Governor, are often poor and sackings are common. At the provincial level, the lack of national checks and balances around Governors has led to many provincial administrations becoming totally captured by the political head. The public service's potential to act as a facilitator of change is highly dependent on the direction of its political masters.

There are many exemplary individuals in the public sector trying to enact positive changes, but on the whole it is weak, fractionised, lacks capacity to implement government policy and is often corrupt. Due to the weakness of the private sector in PNG, the public sector offers the main opportunity for formal sector employment and rent-seeking. The limited institutional will and capacity to monitor performance and compliance almost renders the divide between public and private obligations meaningless.

The public sector has developed reasonably good policies, such as the Medium Term Development Strategy 2005-2010, the Public Expenditure Review and Rationalisation and Public Sector Reform Strategy, but lacks the collective capacity to implement these policies over the short to medium term. For example, in 2004, public sector reform was a major policy direction of the government. There was a freeze on public sector employment and an expectation that the wage bill could be reduced to free up funds for services. However, the final wage/salary bill increased by 170 million kina over the budget and 210 million kina over the 2003 budget out-turn (Warner and Yauieb, 2005:7). There are few organisational and individual incentives in the public service to support reform. At

the agency level, there is limited incentive to cut wages when there is no guarantee the savings from wage cuts will flow back into discretionary agency funding. At the individual level, there is equally no incentive to perform as non-merit-based appointments are common. Okole and Kavanamur's (2004) study of reform in PNG was not able to identify any examples of successful public sector-led reform at the national level in PNG. In some sub-national governments, such as East New Britain (ENB), institutions have remained relatively strong and some reforms have been able to be carried out. However, ENB is a province with high educational levels, broad based revenue earnings and relative cultural homogeneity which contribute to strong institutions: these factors are not present in many other parts of PNG.

PNG meets the classic definition of the kleptocratic predatory state that is captured by the state's elite. Improving the quality of public administration in PNG is likely to have some impact on its ability to halt the decline in governance and service delivery. However, building the state is only one factor constraining PNG's development (Regan, 2005:7; Dinnen, 2004:6). It seems likely that until there is greater social and political development at the community level and greater effective demand for accountability and transparency, the public sector will continue to be captured by the political and bureaucratic elite. We should therefore reasonably expect the public sector, on the whole, to remain weak, and services to remain stagnant or deteriorate.

### *5.2.3 Non-State Agents*

There are a number of non-state agents in PNG that are potential catalysts for positive change in PNG.

The most widespread and influential non-state agents in PNG are church organisations. Churches are a core provider of services in PNG, including about half of all education and primary health services (Stein-Holmes, 2003: 31-33). In many areas within PNG, churches provide one of the few instances of functional

organisations, and provide some of the limited messages about good governance and moral leadership. For example, following the failure of the 2002 national elections in the Southern Highlands Province, the United and Catholic churches used church services, public marches and the radio to promote peace and good leadership. The Catholic Bishop's Conference regularly speaks out against practices of corruption and state-sponsored violence (for example, see *The National*, 21 September 2005). Although the churches can act as a strong and positive voice for reform in the communities, they are also constrained by weaknesses. First, many churches have reached their absorptive capacity and cannot take on programs outside their existing services. Second, although on average church management and service delivery is stronger it is not consistent across the board. For example, a preliminary review of church health services in Gulf Province revealed that mismanagement was just as bad, or worse, than government run services. Third, churches do not speak with a common voice and have often become entangled in politics, diluting their potential to drive broad-based demand for change.

The second cohort of non-state actors with potential to drive change is non-government organisations (NGOs), community-based organisations (CBOs) and networks. NGOs, CBOs and networks fulfill many roles, including service delivery, awareness and information dissemination, advocacy and policy dialogue. In comparison with other developing countries there are a limited number of NGOs and CBOs. Most tend to function as alternative service providers and are heavily dependent on aid donor funding. Few PNG-based NGOs have effectively acted to challenge government policy. However, recently there have been a few attempts by network organisations. One prominent example is the Community Alliance Against Corruption - an alliance between the PNG Chapter of Transparency International, the PNG Media Council and a number of other private sector and non-government bodies. It led a partly successful public campaign against two private members bills to reduce the leadership requirements on MPs and the level of funding provided to MPs (*Post-*

*Courier*, 5 October 2005). The Eco-Forestry Forum, another network organisation, recently public claims about how political leaders are benefiting from illegal logging in Western Province and raised public awareness by protesting against amendments in the Forestry Act (*The National*, 14 June 2005). NGOs, such as the *Kirapim Hauslain Foundation*, have successfully worked with local communities to improve systems of governance at the village and clan levels (Kamare and Korarome, 2004: 67). NGOs, CBOs and network organisations have more potential to act as agents of change at the local and national levels where they have strong local constituencies. However, in general, the non-state actors sector needs considerable strengthening before it can leverage change at a critical mass of communities and at the national level (Fox et al, 2005).

The third category of agent with potential to influence change is the media. The media is predominately non-state owned and have potential to play a greater analysis and watchdog role to enhance levels of information flows and accountability in PNG. They are, however, not free from political influence and bias. For example, *The National* newspaper is owned by a Malaysian company with forestry interests, and uses the paper as a mouthpiece against reform in the industry. Another example is the way in which the Governor of the Southern Highlands Province, alleged to be looting the state of millions (referred to in Koyama, 2005:18-19), is able to 'pay' journalists to produce positive stories. The PNG media also have limited reach, with the majority of the rural population having access only to the public provincial radio, which in many areas is intermittently operational. The media are an ongoing agent of change in PNG. However, it requires strengthening, particularly in the area of investigative reporting to prompt increased demand for accountability and transparency. Encouraging universities and institutes, such as the National Research Institute, to undertake and disseminate information on the government's performance and the use of funds could act as a further catalyst of change.

The private sector is a fourth area where non-state agents are positioned to act as a potential facilitator of change, through its formal and informal components. The formal non-mining private sector is small, and stagnant in real terms. International entrepreneurs own many of the medium-sized businesses. Although represented by Chambers of Commerce and Business Councils, these entrepreneurs have limited influence on policy and government expenditure patterns and are not generally seen as catalysts of change due to their 'whiteskin' dominance. The PNG political elite have increasingly become owners of capital, particularly in the infrastructure sector where the cosy relationship between business and politics ensures contracts are awarded (Kavanamur, 2001). New Chinese, Korean and Malaysian entrepreneurs are increasingly entering the PNG market. Although they have brought increased price competition in the retail sector, their business practices have also fuelled corruption. For example, upon the arrival of this new business class, a payments system for attending to complaints was introduced to the police in the Western Highlands which has now become a norm (Police Adviser, 2004). Except for a few shining examples, like the oil palm industry and NASFUND (*Post Courier*, 10 Feb 2006) formal private sector appears to be on a static path as an agent of change.

It is estimated that between 70 percent and 85 percent of PNG's population generates their core livelihood from agriculture, and thus growth in this sector offers PNG its best hope for change. In both rural and urban environments, this sector is typically divided by tribal identities, and lacks coherence and the presence of organisational bodies to protect and promote sector interests. Although there are industry bodies in the agriculture sector, they tend to be captured by elite interests and government, and can often work against the interests of the people they claim to represent. For example in 2004, ENB copra growers publicly questioned the level of export levies imposed by the Government, which reduce the sector's overseas competitiveness, and have been reported to finance management fees for the *Kokonas Industri Koporesen* (*Post Courier*, 25 October 2004). In urban and peri-urban areas around provincial

capitals, there are limited examples of organisations that have been formed to promote their sectoral interests, reducing their immediate opportunity to work towards common goals and influence government expenditure. The informal sector working committee of the Consultative, Implementation and Monitoring Council has been relatively successful in lobbying for new legislation at the national policy level to protect the informal sector in urban areas.

#### *5.2.4 External Actors*

External organisations in PNG include foreign donors and multinational companies. Foreign donors to PNG provide 22 percent of the national budget and have scope to act as influential agents of change (calculated from Table A3.9, 2005 PNG Government Budget, 2004). Kavanumur and Okole (2004) have shown that reforms pushed by donors in PNG are unlikely to be successful unless the executive government is a co-driver of reform. For example, following the macroeconomic crisis of 1994, the World Bank successfully partnered with the PNG Government to introduce and implement significant financial sector reforms. Although donors alone have been proven to be unsuccessful at introducing reforms, given PNG's poor implementation capacity and financing constraints, major reforms are difficult to carry through without the assistance of external donors. For instance, the late Prime Minister Bill Skate's attempt to downsize the public sector was considered to have failed due to his poor relations with the development banks and, relatedly, the lack of external financing (Kavanumur and Okole, 2004: 64). To the contrary, where external actors are seen to be the primary sponsors of reform it can easily backfire. For example, the proposed land reforms in the 1990s, were commonly believed to be promulgated by the World Bank and thus were spectacularly unsuccessful, culminating in student riots, the death of three students and a halt to land reform.

Multinational companies can act as positive and negative agents of change. In the case of PNG, in recent years the mining and oil sector has generally upheld good standards of corporate governance and acted as positive agents of change.

On the other hand, companies operating in the forestry and fisheries sectors have indulged in practices of corruption and bribery that have led to negative impacts on society, politics and prospects for sustainable economic development.

#### *5.2.5 Conclusions on 'Actor-Driven' Change*

The nature of political competition in PNG, and the absolute power and lack of accountability of politicians act as a major impediment to positive change in PNG. Standards of accountability are unlikely to shift until traditional notions of the 'big-man' evolve at the community level to a Melanesian-based norm of governance. Leadership is important, but the process of acquiring good leadership is poorly understood, and difficult to engineer. In PNG where around 85 percent of the population reside in rural areas, demand for good leadership and accountability will need to be generated at the local level through endogenous processes. This process will be slow, incremental and require interventions that aim to educate and create opportunities that change behaviour at the community level. There seems to be little hope to influence national institutions and state accountability without first improving the functionality of communities at the local level.

### **5.3 Institutions**

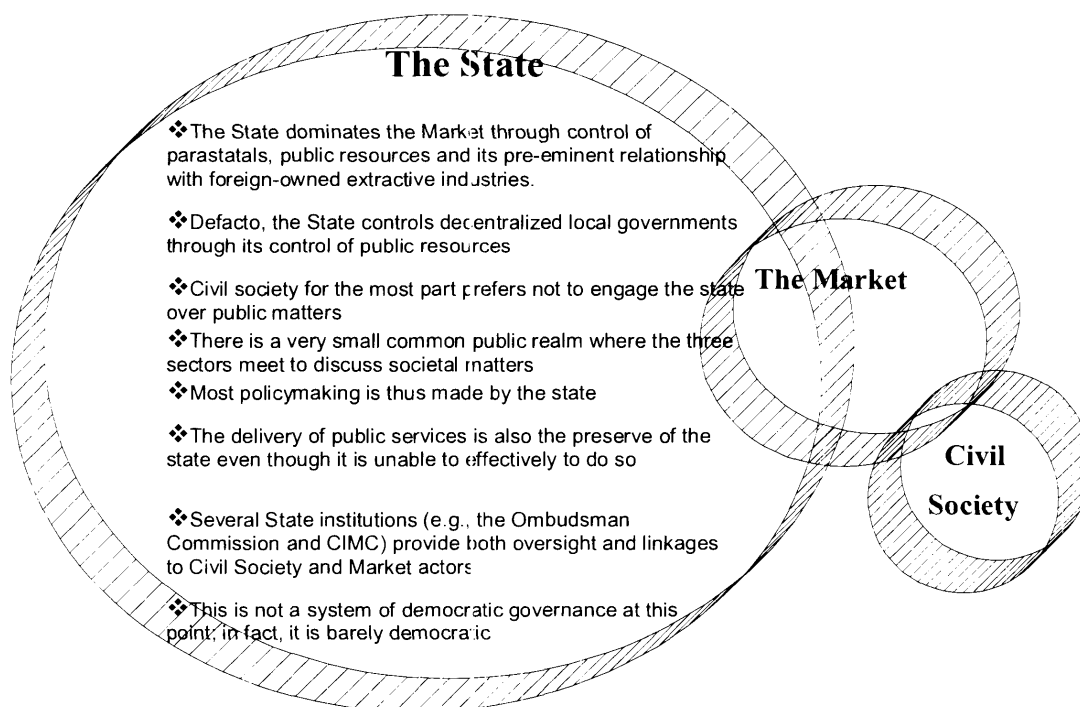
Institutions are "rules of the game" that determine the behaviour of agents and indirectly shift structures. Institutions are broadly considered to be more susceptible to change over the medium term than are structural features. The strength and nature of the relationship between state and its agents (i.e. politicians, public sector) and society will be the key determinant of the potential for change. The fundamental challenge in PNG is that the formal institutions of state were never endogenised, and thus the rules of the games have relatively quickly shifted to replicate embedded notions of patronage and reciprocity. Papua New Guineans are known to be resilient and have come not to expect much of the state (Fox et al, 2005:22), except where they have a direct personal relationship to a person who wields power and can gain access to resources.



PNG's structural challenges resulting from declining per capita economic growth, the emerging HIV/AIDS crisis and rapid population growth will create some pressure on state actors to undertake reform. However, many of these reforms are likely to continue to follow the path of least political resistance, and be poorly implemented. This DofC analysis strongly suggests there is little incentive for top-down driven reform as most political agents have little incentive to change the status quo because reform brings limited benefits over their short political life cycle. The public sector, even where it is well-intentioned, is structurally constrained. In fact a recent report on PNG concluded there was significant disequilibrium in PNG, with the state dominating public life and governance vis-à-vis the market and civil society (Fox et al, 2005:15-16). A portrayal of this institutional relationship is set out in Figure 11 below.

*Figure 11: Disequilibrium in PNG Public Life*

Dominant State – Captured Market – Disengaged Civil Society-System of Non-Shared Governance



Source: Fox et al (2005:15)

There is a broad agreement amongst Melanesians scholars that altering popular perceptions of the role of the state, and therefore the incentives that motivate the actions of political leaders, will be critical to sustained reform (see, Ketan 2004; Morgan, 2005). In PNG, this process of change is long-term because it requires a shift in cultural norms. Analysis of PNG's environment suggest that pressure for change is most likely to emanate from broad-based social groups engaging in securing economic and political livelihoods. These groups are beginning to form but are embryonic and predominately urban based. For instance, Regan (2004:10-11) argues that through individuals and groups working to find their own solution to problems, new linkages in society are developing and are already creating pressure for the development of a 'less colonial' and more 'Melanesianised' state appropriate the people's expectations. Similarly, Dame Carol Kidu (2006) PNG Minister for Community Development has proposed that PNG needs to find its own concept of governance based on traditional ideas of reciprocity which has moral legitimacy in PNG society and bridges the formal and informal systems.

Donors could influence this path by working with actors at all levels with an interest in reengineering the "rules of the game". This may mean working with actors both in and outside the state to promote information flows to the public about the roles and responsibilities of leaders and different levels of government, and seeking to rebuild shared conceptions of the PNG state from the bottom-up. However, donors need to extremely careful that they themselves do not overly engineer the "rules of the game" so that themselves become entangled in politics as well as undermine indigenous notions of governance.

#### **5.4 Strategic Conclusions**

This 'Drivers of Change' analysis, and the soft end conclusions from chapter 4 on aid effectiveness in fragile states, points to the need to redirect interventions to focus more on the links between the state and society. This analysis questions

the presumption that a governance program directed through the state alone will lead to greater accountability. It suggests donors need to have a much more significant focus outside the capital and, where possible, by creating linkages at the local level. Three specific conclusions are now discussed in turn.

First, donors should continue to work with the public sector, despite it offering little scope for inducing reform. The PNG state cannot afford to get any weaker and needs to be supported but the aid community needs to shift the way aid is currently being delivered, and is understood. Through better coordination and commonly agreed principles, aid can potentially leverage the public sector to better manage its politicians (and expenditure) by shifting all funding for service delivery to a 'matching' basis. An example is negotiating a deal where aid donors will provide funding for road maintenance based on an agreed formula (i.e. affordability) for both PNG Government and donor input. Accordingly, if actual PNG Government funding for road maintenance was reduced, donor funding would also be reduced. To the contrary, if PNG Government funding increased as a result of reforms, donor funding could be proportionally increased. Ideally, these types of incentive-based compacts would be set up at the political level and be formed with public sector organisations responsible for the essential functions of government. Operating on this basis is challenging and requires donors to enforce performance-based agreements on the occasion that PNG does not fulfill its obligations. Ensuring there is a high level of public transparency about how this type of aid arrangement operates will be important to maintaining public pressure on the state to fulfill its obligations.

Second, donors should be much more proactive about reinforcing role of the state through fostering development of the media, churches, the education system and non-government organisations that operate at the community level. Assisting the informal private sector to become more organised, particularly in urban and peri-urban areas, may also create broad-based political pressure for improved local institutions and government effectiveness over the medium to

long-term. Given that most of PNG's population operate in the informal sector and/or through subsistence agricultural production, aid interventions that provide opportunities for domestic trade and cash-cropping, and the widespread development of smallholder business institutions, seem to offer the most scope for influencing the path of institutional development. Increasing aid's focus on rural transport infrastructure and basic (and practical) education appears to be the best immediate option for generating both economic growth and social linkages.

The final general conclusion is that building stronger institutions and systems of governance in PNG is likely to be a long-term process of at least 50 to 100 years. There are few catalysts of major change over the short to medium term. Therefore, interventions need to be designed on the premise of inter-generational change based on encouraging economic opportunities and building the capacities of people, rather than aiming for tangible short- and even medium-term governance outcomes.

Drawing on theories of non-market failure discussed in sections 2.3 and 4.2, this analysis makes it clear that PNG's particular demand and supply conditions create a relatively high rate of failure. This condition leads to both inefficiency of government expenditure, and aid sector interventions. The next chapter uses the non-market failure framework to examine the effectiveness of aid in PNG and the incentives and disincentives of existing interventions. In particular, it analyses Australia's aid program and how it fits with the analysis in this chapter and the fragile state paradigm.