Papua New Guinea: 20 Years On

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No. 4 1995–96

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Papua New Guinea: 20 Years On

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On 16 September Papua New Guinea will celebrate the 20th anniversary of its independence from Australian administration. Australian rule ended amicably and a long-term beneficial relationship has ensued between the two nations. The passing of two decades has seen Papua New Guinea (PNG) develop a political system in which Melanesian attitudes and traditions are merging with systems introduced by the colonial administration. In some areas this merging has worked so well as to confound prophets of doom, but in others the interaction of cultures has not been so felicitous. As it approaches its 20th anniversary, the governance of PNG is being criticised both within and outside the country.

Most prominent are concerns over the state of the economy. For the last year PNG has been negotiating with international lending bodies, through the World Bank, for loans to support the national government's Budget deficit and allow the country to rebuild foreign exchange holdings which have been virtually exhausted. During the early 1990s PNG had seen a minerals boom as some of the richest gold and copper mines in the world entered production, and oil was recovered from the highlands. Despite the revenue from these projects, PNG's Budget had gone increasingly into deficit, until, by early 1994 the process became unsustainable.

The government ran out of money and many of the functions it provided stopped. Schools were closed and hospitals virtually ceased services, and business invoices were not paid. In its response to the fiscal crisis the government reduced expenditure to reign in the deficit, and in the process will reduce its own workforce by several thousand - in an environment of persisting high unemployment.

The fiscal crisis has made life difficult for many in PNG including the 85 per cent, or so, of the population who live in rural areas, where health, education and extension services are no longer being effectively delivered. It has also made resolution of the long-running conflict on Bougainville more difficult, because the government can neither fund security force operations nor provide assistance to the people. During the year past there have been several claims by prominent citizens that conditions in PNG today are, at best, no better than they were left by Australia, and official development indices support them. Since independence the population has grown by a third to 4 million people, one half under 19 years of age. Nearly half of those over 10 years of age have had no education at all, standards of health care are reduced because medical aid posts frequently have no pharmaceutical products, and less than 30 per cent of the people have access to safe drinking water.
Yet, the current issue of poor fiscal management aside, PNG's problem has generally not been one of too little expenditure on human, social and economic development. For instance, in education, PNG spends twice as much, sometimes more, per capita than developing South East Asian nations, but cannot achieve the performances they have attained. The reason for this is that PNG has a high cost structure with very low levels of productivity.

Some of this situation can be traced back to Australia's colonial legacy. The Australian government transferred many of its concepts of public administration to PNG and constructed a system that by the end operated efficiently. Nonetheless, the system worked because it was linked to Australian conditions and to the Australian system of government administration. This was the system which was left behind, sometimes physically as in office buildings, sometimes legislatively as in the minimum pay rates system.

Most of this infrastructure was kept by the new nation but, despite large subventions to the PNG budget through Australian aid, no longer worked so well once the underpinning of Australian experience and expertise was withdrawn. At the final analysis, the capacity to run the system was simply not there. At independence only a third of PNG's citizens were literate and its two universities had been functioning for less than a decade. Despite comparatively high rates of expenditure, the situation is little better today and, consequently, many government activities in PNG are ineffective, or are completed at comparatively high cost.

The major issue for PNG after twenty years of the post colonial period is how to develop its own people to effectively secure their destinies by the time the next twenty years have passed. Statistically, any lasting improvement in PNG's situation is likely to take this long because education has not spread sufficiently through the adult and adolescent population, and the public administration of service provision remains poor. And even this assumption depends on significant changes in the relationship of PNG political practice to its administrative outcomes. The result of recent changes to provincial government will be a crucial test of whether politics in PNG can produce better outcomes for its people or whether, as some fear, the abolition of elected provincial governments is merely a bid by national Members of Parliament to centralise power around themselves.

If improvement in PNG's situation is some time off, its citizens will have to endure many of the significant problems currently facing it for some time before lasting improvements can be expected. Indeed, it may well be a significant challenge to prevent some aspects of PNG government becoming worse in the short term. Macroeconomic reform will probably hinder the delivery of services and the performance of government functions through initial reductions of expenditure and staffing. Crime and violence will probably remain an issue until economic development provides sufficient opportunities to employ more of the urban population, or gives traditional landowners better infrastructure to assist them in marketing cash supplements to their subsistence fare.
The issue for the PNG government today, and for its friends such as Australia, is how to ensure that the situation improves and to develop sufficient human skills to give momentum to the effort. Australian development assistance directed through AusAID is focusing increasingly on specific programs rather than direct funding of the PNG budget, in the expectation that benefits will be more effectively delivered to the people. Considerable effort is spent on pre-planning to ensure that intended benefits are actually delivered: an integral component of this is the need for involvement by Papua New Guineans.

The nexus between PNG input and the aid donors' processes is one at which many projects can lose momentum. In the past, international development loans have been committed but never drawn upon, because the national bureaucracy and provincial officials have apparently often been incapable of implementing major projects. Perceptions of poor law and order compound this situation by limiting the willingness of people with the required expertise to work in many areas.

Many people in PNG are concerned that such incapacities in public administration could continue to stall even the efforts designed to correct them, and thus perpetuate PNG's record of poor human development. They are suggesting that the government adopt a wider approach to administration and employ the abilities of the churches and non-government organisations. Similarly, Australian program aid may have to adopt similar approaches more extensively than at present.

PNG has the ability to weather a period of continued disappointment until conditions at last improve. The country's minerals wealth and its potential for other primary industries provide a base which could sustain long-term development. Political life is robust and democratic government now sufficiently well entrenched for the electorate to keep expressing its dissatisfaction with the performance of its politicians. The right of the electorate to continue to do this by changing political representation has been well supported by the judiciary and the media. The future of PNG over the next 20 years depends to a large extent on such criticism having a positive effect on the governance of the nation.
Introduction

This paper is intended to highlight some of those issues where developments during Australia's administration of PNG continue to effect the current situation in the nation. It then discusses the circumstances of some of the major issues facing PNG today. It is not intended to detail the history of the colonial or post-colonial periods. A collection of articles on significant aspects of those times has been produced by the Parliamentary Library Information Service.¹

Papua New Guinea is the largest island nation in the Pacific. Its population now exceeds four million, significantly larger than that of New Zealand, and is expanding at one of the fastest rates (2.6 per cent) in the Asia Pacific. It has been settled for about 50,000 years, yet some of its inhabitants have only been known to the outside world for four decades. It is an amazingly diverse nation of over 800 language groups living across a land mass of sometimes dangerous geological changeability. There is evidence that its peoples were the first in history to develop an agricultural society, yet, during the colonial period they were still using stone age technology and most of the Australians administering the country in the 1950s thought it would take 100 years before PNG could govern itself.

In the early 1960s the UN was critical in reviewing Australian administration of the territories, and the changing situation in Dutch New Guinea/Irian Jaya prompted Australia to reconsider its position in PNG. On 16 September 1975 Papua New Guinea became an independent nation. In the ensuing twenty years the new state has begun to develop its own characteristics. Its people have enthusiastically adopted democratic government, grafting traditional Melanesian political practices onto an institutionalised Westminster-style Parliamentary system. The judicial system has remained independent of politics and has, at times, asserted its authority over the politicians. The media has preserved its rights to criticise the powerful. Great wealth has been unearthed from gold and copper mines, and from oil wells.

There have been immense problems as well. It has proved impossible to transfer mineral industry earnings to the country's citizens on a sustainable basis. Instead, the government has exceeded its income, exhausted the nation's foreign reserves, and been unable to provide its people with vital developmental services, such as health and education, at levels any better than those of two decades ago. For over seven years the continued existence of the nation in its original form has been threatened by an armed insurgency on Bougainville which developed into a civil war. Corruption, violence and crime are periodically identified as major problems facing the nation,
whilst the police force has problems of controlling its officers' behaviour as well as of countering a difficult law and order situation.

Yet, for the majority of the population, 85 per cent who live in rural areas, many of these problems seldom arise. Nearly all the land in the country still belongs to traditional owners and supports them in a subsistence life style. Although PNG does suffer from population drift to the larger urban centres, it remains a highly decentralised collection of communities, each with strong local identification. This strong sense of region has posed problems for the development of a sense of PNG nationhood over its two decades of independence but has given its peoples a resilience which the poor record of economic development might not otherwise support.

Since independence, PNG's official relationship with Australia has continued to allow some degree of Australian involvement in most of the major issues facing the country. More than $300m of development assistance, and around $20m of defence cooperation funding, are currently allocated by Australia to PNG each year. The Australian government has been closely involved in efforts over the last year to support PNG's economy and financial system, both bilaterally and as a member of an international financial grouping.

In a sense, this activity can be seen as an on-going commitment to develop those national functions and capabilities which were incompletely provided by Australia before it accelerated, in the early 1970s, the time frame for granting independence.

The Colonial Legacy

In governing the territories of Papua and New Guinea after the Second World War, Australia slowly constructed a western system of administration with what many have claimed was little thought throughout much of the period, as to how to bring to an end its responsibility. In neither of the territories had there ever been any kind of centralised, or even regional, authority. Communities within the territories were isolated and self-contained, and the further inland the more likely to be unaware of the existence of all but their closest neighbours. Indeed, the world was unaware of the existence of communities in the highlands until the 1930s, yet this region had the highest population density in the country. Common wisdom in Australia, until at least the end of the 1950s, argued that the territories would not be ready for self-government for 100 years.

This attitude led to policy for political development which encouraged the gradual fostering of local government in rural villages, but all areas of the country were not brought under central control until 1963, a situation not surprising when it is recalled that the Mianmin, in the remote Star Mountains on the border with Irian Jaya, were not contacted until the mid-1950s. Pressure from the UN, commencing in the early 1960s, began to change the relaxed attitude of Australian policy makers that PNG's development could be gradual and deliberate, but when independence
came, barely a decade later, little time had been available to provide in PNG the requirements for statehood. PNG's first tertiary education facility had been founded as late as 1966.

Consequently, twenty years later PNG is still influenced by a colonial legacy at odds with its current circumstances. In the decade before independence government expenditure grew at unsustainable rates averaging about 15 per cent of PNG GDP, and then plateaued in real terms. The rising expectations of its citizens could not be met by the budgetary situation PNG inherited.

The western system of government departmental administration, which the country inherited, functions poorly because of insufficient appropriately trained and experienced staff. Even before independence, the Australian administration was criticised for its inefficiency, and its structure adjudged as inappropriate for PNG. In 1962 a UN mission criticised the Australian system as over centralised and over complicated, and possibly one which the territories could not afford. Yet, advice tendered twelve years later to PNG's Constitutional Planning Committee stated

In our experience of political systems in Asia, Africa and the Caribbean we have not come across an administrative system so highly centralised and dominated by its bureaucracy.2

The colonial administration left behind a system of wage determination unrelated to a subsistence economy. In an incident of no little irony, the explosion of wages inflation which was occurring in Australia was transferred to PNG even as independence was being discussed - the PNG urban real minimum wage increasing 60 per cent over the three years to 1975.3 Subsequent Minimum Wages Board decisions which indexed pay levels, combined with a continuing poorly skilled work force, developed in PNG a business cost structure uncompetitive with other developing countries. Over the last two decades that factor has contributed to a major unemployment problem with all its associated social costs. The urban minimum wage was finally abandoned for all new entrants to the labour market in late 1992 and reduced to the level of the rural minimum, which had been consistently one-third that of the urban standard.

Strong Rural Communities

In a society where almost all were subsistence cultivators the importance of such decisions, which were probably seen as mainly relevant to expatriates, were probably not appreciated in the 1970s. In the period up to 1914 in New Guinea, when it had been under German rule, traditional land had been alienated for plantations, mostly in the islands. The British and Australians in Papua (and from 1921 in New Guinea) did not follow this practice. During the inter-war and post-war periods the administration had sought to preserve the situation of rural communities. It banned direct leasing of land and discouraged joint ventures with expatriates - expatriates were not encouraged to establish rural industries, unless the available land was in excess of the foreseeable needs of the local people.4 In this respect one of the most important things that the Australian administration did not do was to expropriate or alienate huge tracts of traditional
land; nor did it attempt to strengthen the position of the colonial power by deliberate settlement of expatriates, although some did establish rural enterprises, most notably in coffee (where, nonetheless 80 per cent of production is still grown by small holders).

Today, 97 per cent of land in PNG, and everything that is on or under it, is still claimed by its traditional owners. Many of these claims are disputed and not infrequently contested, sometimes in tribal fights. The retention of land by the rural people has been a significant issue in the two decades of PNG independence. It has been criticised as a major impediment to national development by preventing the establishment of an efficient property rights system and by slowing negotiations for the establishment of resource projects. Traditional land ownership has sustained a dynamic relationship between land owners and developers, since ownership of the land is never ceded and the land owners feel entitled to renegotiate agreements when they think appropriate; yet it has also placed isolated and poorly informed land holders in the position of making major decisions with little information in their agreements with mining or logging companies. Above all, retention of traditional land has sustained the strength of rural communities and given many of PNG's citizens a basic sense of security which the state is unable to provide.

Independent Judiciary

A significant component of the Australian administration's support of rural communities was its use of an informal system of justice whereby district patrol officers made rulings on claims for justice whilst on patrol, in the best instances in consistency with local custom and consensus. The system was abandoned following a decision by the Australian Minister for Territories (the then Mr Hasluck) to establish a judicial system separate from the district administration - a decision criticised as one source of subsequent public order problems in PNG. Nonetheless, the formal legal system that was developed under Australian tutelage has come to play a significant part in some crucial developments in independent PNG. Not only has the legal profession proved vigilant against the excesses of authority but investigating officers such as the Ombudsman Commission, have an important role in ensuring that the administration of government follows the prescribed rules, and have been able to secure strong public support when their independence has been threatened by the elected representatives.

However, perhaps none of these roles is of more significance than the independence from political authority displayed by the judiciary, particularly the Supreme Court. During the term of the Wingti government from 1992, concerns about a growing authoritarianism crystallised around the Internal Security Act of 1993, which overrode eight separate constitutional freedoms and permitted the banning of groups and detention without trial. Key clauses were ruled unconstitutional by the Supreme Court, although it did allow the validity of the legislation in principle. The Court asserted an even more influential right to adjudicate on PNG politics in August 1994, when it declared invalid a procedure used by Paias Wingti to attempt to retain office until the 1997 elections, namely, his September 1993 resignation and immediate re-
election with a new period of grace before he could be challenged in a vote of no confidence. The Court precipitated his defeat by the current Prime Minister, Sir Julius Chan.

Vigorous Political Democracy

In the event, the most significant legacy taken by the newly independent nation was probably the national institutionalisation of politics. Politics was not foreign to the communities within the Australia administered territories, for political competition and conflict are native to Melanesian culture. That culture was, however, widely dispersed amongst more than 800 language groups, most of which had little contact other than with neighbouring groups, even at independence. The creation of a national structure by the colonial administration, through focusing pre-independence political development on a national House of Assembly in Port Moresby, gave traditional local politicians a new objective. Yet political activity remained strongly local. Because of this local focus the future of democracy as a popular process in the new nation came to be strengthened, yet the legitimacy of the outcome was not extended to the centralised state.

Traditional Melanesian politics operated to a large extent on the distribution of wealth to gain status and influence. The Australian administration's fostering of local political development unintentionally nurtured within PNG politics the concept of 'development' as the distribution of wealth and services by the state with no apparent local input. This seeded the expectation, which was to become a dominant element of PNG political culture, that politics was about the distribution of wealth and services accessed through public office too clan and supporters. Progress across the country was very uneven but social development was sorely needed: at the conclusion of Australia's mandate, only a third of the people were literate and were living in circumstances where more than 10 percent of infants died. However, expectations of improving such circumstances were higher than the new state could satisfy.

Bougainville

In the 1960s, as international criticism of the pace of Australian development of Papua and New Guinea increased, the territorial administration began to more actively promote developmental projects. External investment in mining came to be encouraged after the discovery in 1964 of a significant deposit of copper at Panguna, on Bougainville, and was seen by the Australian government as a source of ongoing revenue to support the new nation. Yet, when development of this first significant project was attempted a glimpse of the future was to be provided. In 1969 landowner resistance broke out on Bougainville in protest against the compulsory acquisition of land and the level of compensation offered to traditional land owners. The Gorton government was forced to over-rule its colonial administration and reopen negotiations to allow greater recompense to the locals.

The vast open cut mine was opened in 1972, well before independence but, as it subsequently became apparent, the negotiations were conducted with disregard of local custom on the part of
the Australians and in ignorance of the effects of modern technology on the part of the Bougainvillians. A promised ten-year review of the terms under which the mine was operating which was supposed to have been done in 1982 was not conducted and so underlying themes of discontent were not discovered. The legacy has become famous as the catalyst of the Bougainville Revolutionary Army's insurgency that has continued since 1988.

**Politics and Government**

**Community Focused, Loosely Organised**

At the community level, the PNG state at independence (and today) made little impact on a society that was based on the central importance of clan and tribal loyalties. Throughout its independent existence, the entity of PNG has been unable to challenge the affiliation of its citizens to their local region and kin. To a large degree, elections (even for national level government) allow clan and village groupings to compete for prestige and wealth in supporting their candidate. The existence of locally-focused political groupings ensures that a number of potentially electable candidates nominate in each constituency, which combined with the PNG first-past-the-post electoral system usually gives victory with only a small proportion of the vote. In the last national election, 1992, 46 percent of the national Parliament was elected with a vote of 20 per cent or less of the total.10

In these circumstances, the expectations of supporters that politicians will return material benefits to their communities are reinforced. Consequently, PNG politicians actively seek to become distributors of 'development' - that is, to exercise the opportunity to dispense public funds to their region for infrastructure, services and to provide income. There is little concept of a wider public good, with most supporters expecting that, if successful, their candidate will fund activities in their area and not favour any others.11

Such localism encourages a predominantly regional character in most of PNG's political groupings and has made it difficult to sustain national parties. After the 1992 elections the largest grouping, some 35 Members, were those considered to be independents and the size of any party seldom exceeds 20 per cent of the 109 seats in the national Parliament. Parties hold few sanctions and MPs often change their party allegiance. Consequently, political party discipline has little role in controlling the direction of politics in PNG. In general, the outcome of these factors and the pressures thereby generated to concentrate on the financial administration of government (if not the venal in politics) is that the Parliament fails to perform well its legislative, policy and accountability functions.12

However, access to some of the few reliable sources of wealth in the country has not turned politics into a sinecure. Cynicism regarding politicians and disappointment at their efforts quickly became features of PNG government. It has been usual for around half of the Members of the
National Parliament to be defeated after serving only a single term. In 1992, 59 incumbent Members of the 109 seat national Parliament, including more than half of the National Executive Council (the PNG Cabinet) failed to gain re-election. Neither has cynicism tempted PNG citizens to dabble in non-democratic alternatives for national government. The possibility of the security forces forming a nucleus for an armed coup, closely considered before independence has declined. Already, politics in PNG has developed a tradition which indicates that, regardless of the inducements offered, 'PNG societies do not allow themselves to be dominated for long by any person or group.'

Politics, Money and Corruption

Yet, if anything, the popular participation in politics has strengthened the connection between politics and material benefits. In PNG the link has become institutionalised in the Electoral Development Fund (EDF) allocated to each Member of the National Parliament, and operated by them for the direct provision of services and infrastructure in their electorate. The annual entitlement of each Member now amounts to 300 000 Kina - in 1990 it had been 50 000 Kina. Further, they have potential access to 200 000 Kina of Minor Rural Transport Funds. By attempting to transfer the activities of the state through the hands of individuals, the EDF both reflects and reinforces the weakness of the state in comparison with the strength of local society. The people, therefore, now have low expectations of the state, and grant it little legitimacy or authority.

The corollary of this environment is that corruption is a serious problem in politics and public administration. Because of the role of the distribution of wealth in the Melanesian practice of politics, western concepts of corruption are not easily transferred to PNG. Nonetheless the consequences of behaviour such as giving an aid project support vehicle to clan members, or investing compensation payments from a resource company in a local enterprise, can be identified as dysfunctional when the aid project founders or the traditional land holders riot because they have not been compensated for damage to their land. This is publicly recognised in PNG, where special provisions have been made to counter it. Public administration is subject to standard audit procedures, although often delayed by years, but politicians also may be cited for corruption and brought before the Leadership Tribunal (and can be removed from their seat) and provincial governments may be suspended by the national Parliament for mal-administration. To date, even this extensive machinery has been unable to make public corruption too risky a course to follow. As a result, corruption has become yet another handicap among the many which reduce the extent of public services. In turn, corruption reinforces itself by increasing the importance of gaining political access to funds.

Public Administration

The point at which the national enthusiasm for politics and the public expectations of democracy break down, is in public administration. The problem begins in the legislature itself, where
effective scrutiny of executive operations is seldom pursued, and is compounded by the underfunding of those agencies (such as the Ombudsman Commission) designed to evaluate the effectiveness of government. It has become traditional for Ministers to spend much time influencing the dispersion of funds. \(^{17}\) This self-interested administrative focus has gradually extended into the appointment of public servants on patronage and a loss of professionalism and morale in the bureaucracy. While recognising that the system acquired from Australia generally may not be suited to PNG, many prominent citizens express nostalgia for the Australian administrative system which seemed to work, and contrast this with the decay of rural infrastructure and regional administrative centres which 'have (had) nothing at all done with them for 20 years'. \(^{18}\)

And yet, public expenditure on social development in PNG is not low. In 1989 PNG spent double the proportion of GDP on education which was spent by Thailand and the Philippines, and four times the proportion of Indonesia. Whereas the South East Asian nations have high rates of literacy, in PNG half of the population over ten years had no schooling at all. \(^{19}\) As indicated by these disparities, studies have found that the cost of education in PNG is two to three times that of the average of South East Asian countries for primary and secondary schools, and nearly seven times for tertiary education. This imbalance has further implications for the efficiency of public expenditure because it means that over thirty per cent of the educational budget has to be spent on the two per cent of total enrolled students who reach tertiary institutions. \(^{20}\) Similar structural issues affect the performance of the PNG public sector in many areas. Funding problems have reduced the extent of agricultural extension services in rural areas and leave many bureaucrats anchored to their desks instead of providing services to the community.

**Provincial Government**

PNG is constitutionally a unitary state. The local governments fostered by the territory administration were kept after independence and, although weakened, some 240 bodies are nominally in existence. National parliamentarians began to be elected from 1964. A third level of government, provinces generally corresponding to the Australian administration's colonial districts, was one of the concepts contemplated as the country neared independence but was firmly opposed by the Somare Government just prior to independence.

However, PNG has a history of micro-nationalism dating from before independence and lacks the elements normally underpinning nationality (common language and culture, religion, ethnic origin). Threats of secession created such popular response in the 1970s that they have become a tradition in political bargaining between regional and national levels of government. At independence a separatist movement on Bougainville enjoyed strong support and the island's future participation in the new nation was not assured. Discontent on the Gazelle Peninsula of New Britain had gained notoriety in Australia and the Papua Besena separatist movement had a prominent voice in Josephine Abijah. The issue was diffused in February 1976 when it was
agreed to establish provincial level governments. In March 1977 an Organic Law establishing nineteen of these governments was passed and the provinces were given responsibility for the provision of education, health, agricultural extension services and much of the rural road network. In this, they absorbed the roles and finances which had been allocated to local government, which continued in existence with only limited functions.

As a consequence of these changes the three levels of government have been the foci of political rivalry since independence. The provincial governments' responsibilities for grass roots development ought to give them a visibility in the electorate, where the focus is on these issues. They thereby have responsibility for roles which national MPs would like to perform. This is one of the reasons for the growth in the EDF, which gives the national MP a chance to be seen delivering 'development'. Provincial governments have replicated these allowances to some extent. By 1992, funds at the discretion of national politicians diverted about 25 per cent of potential provincial budgets. In such ways national/provincial political competition has generally reduced effective funding arrangements for the provinces to inadequate levels, and frequently led to inefficiency in the delivery of services to the population.21 Half of the 50 000 PNG public servants live in Port Moresby, and half of the health budget is spent on two hospitals in the capital and Lae, yet the nation's most pressing responsibilities are to public health, to primary education and to agricultural development, especially for the 85 per cent of the population which lives in the bush.22

These problems are compounded because the country is, as yet, unable to provide the administrative talent required to run two levels of government.23 Since independence, 16 provincial governments have been suspended at some time for mismanagement or illegal use of funds - eight governments were under suspension concurrently in 1994.24 And yet, it must be remembered, the provincial governments are responsible for providing services in those areas (health, education and agriculture) where PNG's development is weakest.

In general, provincial government, and especially the 600 politicians in provincial assemblies,25 is recognised as a structure PNG can ill-afford. This is despite the national government generally exerting some financial control over most provinces, the majority of which have their budgets allocated as part of the national budget with funds transferred through the Department of Finance and Planning. Also, most of the provincial governments' staff are national public servants. The financial system in PNG has evolved to starve the provinces of discretionary funding, with the recurrent budget often sufficient to pay little more than the salaries of the provincial assemblies and public servants, and an inadequate gesture toward maintenance.

Reform of Provincial Government

In 1992, an all-party committee of the national Parliament, chaired by Ben Micah, was established to consider the issue. The committee reported in August 1993, recommending the abolition of provincial assemblies, with control of provincial administration to pass to new
bodies composed of the national Members of Parliament from the province and representatives of local government bodies. The Organic Law, under which the provincial governments were created can be amended or repealed by a two-thirds majority vote.

In 1994 the committee was recast as the Constitutional Review Commission, to draft amendments to the Constitution and the Organic Laws. The proposals, not unexpectedly, outraged provincial level politicians, with those from the island provinces jointly raising the issue of secession. This is understandable, as the legislative changes were clearly aimed at removing provincial politicians, and not the provinces. Provincial 'assemblies' will remain, but as 'authorities' headed by the Regional MP (19 Members of the national Parliament are elected on a province-wide vote) as Governor. Also included are those national MPs elected from the other constituencies within the province, and local-government presidents.

The intention of absorbing provincial assembly members into local-level government, and the generally small residual levels of funding and responsibility residing in local government, leaves the potential effectiveness of their roles questionable. In any case, financial authority is to be centralised and development expenditure subject to national ministerial control. The exception to these proposals is (again) Bougainville, where the promise of a regional form of government (at least till 1997) is part of the settlement of the long-running conflict on that island.

The proposed changes to the Constitution and the repeal of the Organic Law were passed on 27 June, by a vote of 86 to 15 and after some considerable infighting, which involved the deputy head of the Constitutional Review Commission opposing the bills, and his subsequent dismissal along with four other Ministers who voted against the legislation. This was an extraordinary outcome for a proposal from an all-party committee which had enjoyed near unanimous parliamentary support in early 1994. The politics of the vote reflect the deepening criticism and cynicism directed towards the reforms. These sentiments were strengthened by the admission that, contrary to expectations, the changes will not reduce expenditure on provincial governments but increase the national budget in the first year by from 50 to 200 million Kina (the amount depending on sources). Like many, Rabbie Namaliu, former Prime Minister and currently Speaker of the national Parliament believes that the reforms represent a deliberate attempt to centralise power in Waigani (the Port Moresby suburb where the parliament is located), but will instead focus the 1997 election campaign on the performance of the national MPs in administering the provinces.

The abolition of provincial assemblies may well be the most important change to PNG politics and government since independence. It is not easy to predict the outcomes however. The removal of the structural competition between national and provincial politicians may end the vitiating misuse of public finance to promote individual politicians, although it could also remove a structure which checked and counter balanced the activities of MPs. The clear prominence of the provincial governor may encourage more efficient planning and direction of provincial functions. Certainly, this victory for national MPs will make more apparent to constituents the
MP's responsibility for effective development, and may provide an incentive to better performance, in contrast to the previous built-in imperative to weaken provincial counterparts.

That the move should be viewed with cynicism in PNG, even before it was finalised, is not surprising. PNG politics is well recognised as focused on building personal prestige and resources, and the reform of provincial government can be easily explained in these terms. Thus, some see national MPs as now able to gain a sinecure for life through buying electoral support with provincial development programs. Paias Wingti might appear to think the changes will assist his political career, having resigned as Leader of the Opposition to become governor of Western Highlands Province. Alternatively, the consistent pattern, whereby disappointed expectations cause PNG electors to reject their leaders, could even be reinforced - with the everyday human needs of almost all PNG citizens so poorly catered for, the disappointment of their expectations is almost inevitable. This is implicit in Mr Namaliu commentary, mentioned above.32

Given the dynamism and turbulence of politics in PNG society, the only option not likely is that reform of provincial administration will be smoothly achieved.

**The Economy**

**A Very Poor Rich Country?**33

PNG is a third world country with low per capita income, little infrastructure and social indicators which are worse than those of smaller South West Pacific island states. Simple amenities, such as roads and access to safe drinking water, are seldom available whilst health services are sparse to non-existent. In conditions such as these, life expectancy reaches only the mid-fifties and the infant mortality rate is six times that of Australia. Maternal mortality rates in childbirth are amongst the world's greatest.

Options to escape these conditions are few, with only 6 per cent of the population involved in the formal employment economy. Indeed, living conditions for many in PNG have grown worse since independence, with GDP per capita falling in six of the last 14 years.34 In 1990 the year after the Panguna mine closed, GDP per capita was 2 per cent lower than in 1980.35 Although barely 50 per cent of the population has any schooling, only one third of high school leavers are able to find a job in the formal economy.36

Yet in some recent years the nation's economic performance has been statistically outstanding. Rates of growth of 9 per cent and 14.4 per cent were recorded during 1992 and 1993, respectively. However, the figures were mostly recording the increasing value of metals and oil exports from PNG's very rich recent resource projects. This has a marginal direct effect on the domestic economy, where the non-mining economy grew by 1.1 per cent in 1993, a reduced
rate of growth compared with immediately preceding years. The resource industries generate few jobs, with total employment of little more than 5,000 positions in PNG. This discrepancy shows in United Nations Development Program (UNDP) human development indices for 1993 where the country ranked 129th of 173 countries in the comparisons of GDP, but some 18 places lower when human development factors (life expectancy, educational attainment) were included in the evaluation.

The government's fiscal base could be expected to provide for activities to improve the situation of its people, as PNG is rich in biological and mineral resources. For most of its history PNG has conducted a fairly conservative fiscal policy, and between 1987 and 1988 the budget deficit averaged only 1 per cent of GDP. However, the fiscal base was severely disrupted following the closure of the Bougainville copper mine in 1989, when this single source provided 24 per cent of government revenues and 36 per cent of the nation's export earnings.

Inadequate Economic Management

It is sometimes suggested that the loss of the Panguna mine was of such magnitude that it triggered subsequent economic difficulties suffered by PNG. In fact, the malaise was older and more deeply rooted. PNG was one of only 10 countries to show a decline in the (UNDP) index between 1970 and 1990, and it is of the nature of such indices that they are affected by trends too long in duration to be influenced by the loss of the mine revenues in the 1990 budget. In reality, the onset of the 'minerals boom' of the early 1990s quickly restored the government's revenue base and produced sufficient income by 1992 to offset the loss of the Bougainville mine.

Despite an initial program in 1990 of budget reductions in response to the loss of revenue, and the surprisingly quick restoration of the government funding base, large budget deficits were allowed to grow throughout the early 1990s. In the 1993 budget PNG flirted with supply-side economics, reducing personal and corporate tax rates. At the same time, expenditure was increased. Under the Wingti government, which came to office in July 1992, minerals industry policy changed to emphasise the acquisition of equity in the major resource projects. In effect, income from resource rental normally part of the government's expenditure base was diverted to cover loans to finance these purchases. Equity participation, however, does not guarantee as consistent an income flow as do resource rental arrangements - for instance, the Ok Tedi mine has yet to amortise its investment and will return dividends in 1996 at the earliest.

As a result of a fall in the income from gold, government revenues became overly dependant on oil royalties. In early 1994 oil prices declined significantly below projections used in framing the budget income estimates for that year. Public sector debt rose to 48 per cent of GDP and the 1994 budget deficit was already threatening to rise to 7-8 per cent of GDP (it had been 4.5 per cent in 1991). The increasing deficit was consumption oriented for, despite an increase in resource revenues and in the budget deficit, expenditure on capital and maintenance works fell from 1993 onwards. The government chose to finance its deficit from the domestic banking
system rather than seeking an international loan - in fact, its credit was not sufficient to secure a
commercial loan. Without foreign currency backing, the PNG banking system inevitably drew
down the country's foreign reserves. In effect, PNG already had spent the benefits of the 1990s
mineral boom. Worse, as it had done so, investor activity in the PNG resource sector had
declined. Over the three years to 1993, expenditure on minerals exploration fell from 315m to
50m Kina. Without new sources of production, PNG gold output was calculated to begin
debuting from 1994 and its oil output from 1996.44

The Fiscal Crisis

Despite a contractionary 'mini-budget' in March 1994, and a change of government at the end of
August which permitted significant restructuring, the economic environment remained critical.
During June the nation's foreign currency reserves had decreased to $64m, sufficient to fund
only 14 days cover on imports (whereas in 1992 they had been sufficient to fund 2.5 months).
The new government of Sir Julius Chan froze government expenditures and abandoned the fixed
exchange rate for the Kina, which devalued by 12 per cent. Despite this, a major flight of capital
continued and the contractionary fiscal policy started to disrupt lives of urban citizens with
hospital and school closures, and increasing backlogs on the payment of government debts to
suppliers.45

The central issue facing the PNG government over the next year has been that the nation had
run out of foreign exchange and its government debt required refinancing through overseas
loans before substantial reform of economic management could be implemented. Such finance
could only come from the international lending institutions such as the World Bank and the
International Monetary Fund, and their support carried conditions. Furthermore, private
investment was waiting on PNG's response to the institutions before financing projects in that
country (by now Australia's Export Finance and Insurance Corporation had downgraded PNG
to a D rating, its bottom category for risk assessment)46. The government was anxious to
establish an environment to allow financing of the Lihir gold mine as a first step towards
securing their future revenue base.

During the year from September 1994, Australia allocated $111m (in addition to budgeted
development assistance) in loans to PNG, but staged these loans on condition that PNG agree to
World Bank terms. By June, the PNG Government had exhausted funds for health, education
and infrastructure projects.47 After a little further resistance from both sides, agreement was
reached with a consortium of international lending authorities, on 31 August, to advance loans
to a total of $466m to PNG over the next 17 months. As part of the package, Australia will
advance PNG a loan of $66m this year.48 For a World Bank structural adjustment package, the
terms of the loan are comparatively benign and actually commit PNG to increasing expenditure
on health, education and infrastructure maintenance. Rumours that the terms would end
traditional land ownership, which precipitated major riots in Port Moresby, Lae and the
Highlands in July,49 were shown to be false - and even the EDF went untouched despite an early
attempt by the World Bank to negotiate its removal. The areas targeted as conditions of the loan centre largely on more traditional fiscal management objectives: fiscal reform with reductions in public service numbers; removal of restrictions on price, trade and investment decisions; regularising the situation of the logging industry to remove ministerial licensing discretion; and improving public information on the performance of government fiscal policy.

A Way Out?

Economists now see the beginnings of hope for the PNG economy. Recently, Professor Ross Garnaut (now with a direct interest in the future performance of the PNG economy as chairman of Lihir Gold Pty Ltd,) expressed hope that a government resolve to restore 'fiscal discipline' by achieving the reduced budget deficits expected for this year and 1996, higher export commodity prices, the agreement now reached with international banks to supply bridging finance, and capital inflow associated with the development of the Lihir mine, might stabilise the balance of payments 'over the next six months or so.\(^\text{50}\)

Sustaining any such benefits into the future is another matter. Garnaut's prescription for this is widely accepted: keeping urban wages at levels reached in the 1992 Wages Board determination and reinforced through the devaluation of the Kina, reduction of the impediments caused by poor infrastructure (with attention to rehabilitation and maintenance of existing education, health and transport services, rather than building new ones), overcoming inadequate training and education, and reducing civil disorder, amongst others. Nonetheless, significant economic difficulties will remain a problem with considerable social consequences for the foreseeable future. PNG's commercial and industrial base is small and attracts little foreign capital. It is unlikely, therefore, that devaluation will encourage much production to substitute for now more expensive imports. The small capacity of the formal PNG economy restricts expansion of employment, and will sustain for some time the difficulties faced by PNG's educated minority in finding work.

The benefits to the nation which would accrue if it achieved developmental goals have been accepted as true for the two decades of independence. Their achievement has proved elusive. If the prosperity of its future citizens is to be greater than that of the first independence generation, the nation's governments will have to deliver such outcomes more effectively than in the past.

As You Were - the rural economy

Meanwhile, circumstances for the nation's rural majority have been difficult for some time. About 85 per cent of people in PNG still derive their subsistence from farming, and also grow small quantities of cash crops to provide some income. Most of these are the so called tree crops (predominantly coffee, copra and cocoa) and for these products world commodity prices have declined by 50 to 60 per cent since the mid-1980s.\(^\text{51}\) This has not only reduced direct cash flow to rural communities but discouraged agricultural investment which could have provided
supplementary employment in the country. As yet, a prosperous future for rural areas depends, as with much else in PNG, on a better performance in the administration of government functions.

This applies not only to the provision of development services, but to regulatory functions which could increase the revenue available from rural activities. Ownership of traditional lands has allowed many communities to sell their timber resources to foreign logging companies. All too often logging has left the communities underpaid for the value of their resource and with no renewable resource. PNG's administrative incapacity to manage its resource areas has contributed to this damage to local communities and cost the government millions of Kina in potential revenue collections because of transfer pricing and failure to declare the true world market value of the resource. The cost of this incapacity has been calculated as equivalent to erecting 6 000 class rooms from the under-collection of revenue on logging exports in 1993 alone.\footnote{52}

**Public Order and Security**

During the 1980s crime and public order became issues in PNG life. Concern focused initially on violent crime as gangs became prominent in conducting robberies and assaults, particularly around Port Moresby and Lae, and in the highlands. The term 'raskol' became familiar even in Australia, as the 'law and order' problem received international coverage. There were increasing concerns as well that tribal warfare, previously a mostly stylised tradition of the highlands, was becoming more deadly as participants gained wider access to fire arms. The whole debate took on a wider significance in 1989 when, by May of that year, the Bougainville Revolutionary Army (BRA) succeeded in forcing the closure of the Panguna copper mine.

**Bougainville - again**

The leaders of the BRA represented a group among the Nasiol people, the traditional landowners of the area. In challenging the legitimacy of their clan elders in the established Panguna Landowners Association, this group in 1987-88 made a series of new demands for compensation on the mine operators. Failing to gain satisfaction, the BRA turned to guerilla operations in mountains of the Crown Prince Range, where the Panguna mine is located.

However, the conflict across the island has many sources. The BRA tapped into, and was influenced by, a strong sentiment against incorporation into PNG amongst Bougainvillians, which was strongly demonstrated at the time of independence. In their response to BRA activities between November 1988 and March 1990, the PNG security forces reinforced these sentiments by their indiscipline and poor tactics. However, after a period of BRA dominance in 1990, when the police and the Papua New Guinea Defence Force (PNGDF) had withdrawn from the island for a short time, and after opponents of the BRA had become victims of physical abuse and sometimes murder, the conflict amongst Bougainvillians became a civil war. Even
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after the re-establishment of PNGDF positions on the island, much of the fighting occurred between the BRA and the Resistance. The latter were Bougainvillians, armed with government or home-made weapons, who actively defended their villages against the BRA, while the PNGDF often remained confined to base areas because of inadequate financial support, logistics and transport, and limited personnel.

In 1994 after more than six years of fighting, previous social relations and the economy of Bougainville were largely destroyed, with no resolution apparent. The PNGDF held the capital, Arawa, and several administrative centres, but the BRA had effective control of the bush. Caught between the fighting, which was often brutal and indiscriminating of neutrals on either side, 50 000 people or almost half of the population of the island had been forced to live in government 'care centres', where they often faced hunger because of PNG's incapacity to fund services on the island and the inability of the bureaucracy to manage a major logistics operation. The Wingti government pursued the aim of defeating the BRA militarily, and PNGDF units even succeeded in re-entering Panguna township, but the BRA's freedom of manoeuvre in the bush was not hampered and the fighting continued.

As Foreign Minister in the Wingti government from January 1992, Sir Julius Chan had established contact with members of the Bougainville Interim Government (the political wing of the BRA) in the Solomon Islands and after he became Prime Minister he moved very quickly to change the situation. On 8 September an agreement implementing a cease fire was signed. This took effect two days later (to allow the news to reach isolated forces). The agreement committed both sides to restrict their armed units to their fixed positions, allowed citizens freedom to move about the island (effectively revoking PNGDF military control of personal movement) and scheduled a pan-Bougainville peace conference for no later than 10 October.53

The conference duly assembled under the protection of a South Pacific peace keeping force drawn from the security forces of Fiji, Tonga and Vanuatu, with the Australian Defence Force providing logistics support. The role of the peacekeeping force was to maintain a security zone around Arawa. In the end, the leaders of the BRA, with good reason to fear for their safety once beyond the peace keeping force's protection, did not appear. However, there was a large and expectant attendance from villages around most of the island and several district commanders of the BRA broke with that organisation to attend. Whilst the conference concluded without arranging peace with the BRA, the momentum gained was significant, with Bougainvillians determined to normalise their lives and defections of BRA fighters beginning.54

Prime Minister Chan has chosen to ignore the BRA and move towards gaining a popular acceptance of peace conditions on Bougainville in the hope that the BRA's military command will become marginalised. By the end of 1994 Sir Julius had gained considerable momentum for this approach, persuading several significant BRA activists to enter further negotiations. On 25 November this process culminated in the signature of the Charter of Mirigini for a New Bougainville. This provided for the formation of a Bougainville Transitional Government by
April 1995 and the renegotiation of the 1976 Bougainville Agreement, which had recorded the terms of settlement of the earlier secession crisis.\(^{55}\)

The Transitional Government has been established, with several of its prominent members being ex-BRA, and progress has been made in rebuilding ruined facilities and reintroducing development services, such as immunisation programs for children. The BRA did not accept an offer of three seats in the Transitional Government and is far from spent as a military force, continuing an effective insurgency. If apparently more restricted in reach than previously, it recently demonstrated its retained potential by raids into northern Bougainville (which had had little disruption for the last two years) and attacks on health facilities and the security forces in Arawa.\(^ {56}\) The Transitional Government is currently pursuing a policy of encouraging talks between PNG and the BRA.

Although the saga is by no means ended, the Chan government has been able to achieve a significant advance over the situation which has pertained for over six years. Sir Julius Chan's pragmatism appears to have moved the nation part way towards ending a conflict that has taken hundreds of lives, has ruined what was once PNG's most developed province, and has cost PNG hundreds of millions in revenue foregone from the Panguna mine and in finances for PNGDF operations. Further pragmatism from the PNG government may be required to bring a more lasting conclusion to the fighting.

Public Order and Internal Security

Since the beginning of the decade there has been no doubt amongst PNG's leaders that the only threats to the country's security are internal. The policy of successive governments has been to direct security expenditures towards internal security, placing as much priority as possible on the development of the Royal PNG Constabulary. However, moves in this direction have been handicapped by the financial and personnel costs of the PNGDF deployment on Bougainville (which for the PNGDF during 1994 was 50 per cent over the normal budget).

Consequently, little progress has been made by PNG in diverting resources away from the PNGDF to the Constabulary, let alone the longer term aim of finding internal security roles for a restructured Defence Force. Problems persist with containing crime and controlling violence, both in urban areas, and in the highlands where tribal warfare is becoming more dangerous. In many ways the debate about the real extent of crime and violence in PNG, and the effectiveness of responses, reflects the broader structural problems within government administration. It is frequently alleged by PNG citizens that the root of the public order problem lies in the poor example provided by the attitudes and behaviour of the country's politicians. It seems equally probable that the issue will not be resolved until the quality of PNG's public administration is significantly improved.\(^ {57}\)
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The Australia PNG Connection

Since independence Australia has continued a close relationship with PNG. This commenced with the processes of decolonisation and the handover of Australian assets to PNG, and continues with the direct financial support of the PNG budget, and secondment of Australian personnel in the public service and security forces. It has continued with Australian contributions in financial crisis, support of the PNGDF in security operations, payment for the upkeep of Irian Jayan refugees near the PNG border with Indonesia, technical advice through various AusAID projects, and fisheries surveillance flights by the RAAF. In a little known arrangement the RAN Hydrographer is responsible for charting PNG's waters and shipping routes. Australia shares a common border zone with PNG, in Torres Strait, through which there is considerable traditional movement.

Most of these areas of interaction have now been covered in formal agreements. The Joint Declaration of Principles (JDP), signed by the Prime Ministers of both countries in December 1987, is the umbrella agreement covering all aspects of the relationship and establishing an annual Joint Ministerial Forum for review of the relationship at the highest level. The Treaty on Development Cooperation was signed in 1989, largely at PNG's initiative following the shock of cuts to projected aid levels in 1985-86. This treaty is subject to regular ministerial review, the first of which was in September 1992 and the latest being scheduled for late September 1995. The security relationship is confirmed in the defence section of the JDP, which includes a mutual security assurance. While the language of the JDP has been described as similar to that of the Five Power Defence Arrangements, the sentiments of the latest security agreement, the Agreed Statement on Security Cooperation Between Australia and Papua New Guinea, issued in September 1991, focuses on the needs of providing internal security. The maritime borders between the countries and the rights of traditional passage within the Torres Strait region are covered by the Torres Strait Treaty.

The nature of the Australian presence in PNG has changed in the last two decades. Between 10,000 and 12,000 Australian nationals are resident in PNG, but the administrators and plantation managers have largely departed. Thousands of people from PNG have settled in Australia, usually after intermarriage, and substantial numbers of PNG students attend Australian schools each year. Australian investment has increased, predominantly in the resource sector where Australian companies have investments probably approaching $1 billion. Many of the mines have significant Australian share holdings and, largely, Australian management and technical inputs, but are not Australian owned - the intricacies of international financing having reached PNG via the resources sector. To date there has been little investment in the non-resource sector of the PNG economy, but the Queensland State Government established a South Pacific trade promotion service in 1994 which has promoted feasibility studies of the tourist potential of the eastern Papuan islands.
Development Assistance

Despite the many aspects of the relationship with PNG, it is the issue of development assistance, or 'aid', which has usually dominated it. Since independence Australia has given PNG $10 billion in aid \(^6\) of which $500m was for Defence Cooperation Program (DCP) activities. \(^61\) Initially, Australian aid was extremely important, with development assistance comprising over 25 per cent of PNG's budget after independence but, since the 1990s, the proportion has dropped to below fifteen per cent. Until 1992 over 90 per cent of development assistance was paid directly into the PNG treasury, a procedure with little precedent elsewhere. Policy was altered at the 1992 review of the Treaty on Development Cooperation, with a gradually increasing proportion of Australia's development assistance to be transferred from direct funding to the support of specific programs, identified and agreed conjointly by both nations. During 1995-96 it is estimated that $177.8m will be paid to PNG in budget support, with the appropriation for program activities already up to $118.6m. \(^62\) By the year 2000 it is expected that only the equivalent of some $50m of Australian assistance will be paid directly into PNG finances.

The difficulty facing this policy is the same as that which has handicapped the provision of development services by the PNG government itself. This is the shortage of sufficient staff and expertise to identify, define, plan, implement and evaluate each proposed program. This limitation was noted with some caution early in the process with regard to Australian capabilities \(^63\), but is the more true with regard to the capacity of the PNG public service. World Bank experience is that PNG is the slowest country in the world in implementation of development programs, taking seven to eight years for projects which elsewhere were completed in three to four. \(^64\) So common has it become for PNG to not draw down on international development loans for specific projects, simply because PNG agencies have been unable to organise any activity, that Japan has withdrawn from offering this type of assistance.

AusAID program delivery strategies already include the use of Non-Government Organisations (NGOs). However, in circumstances where the government system is unable to absorb the transfer of funds implied by the current Australian policy, wider and more innovative use of NGOs may be necessary, where practical, to avoid a fall in the level of development assistance to PNG, even at the risk of criticism from the Commonwealth Auditor.

In practice, 'jointly programmed' aid is expected to benefit ordinary PNG citizens by identifying, designing and delivering specific community development projects. The Australian High Commissioner in PNG has been quoted as linking the general objectives of this policy to the types of activities which will help develop amongst the people of PNG the skills to provide the capacity for self-development \(^65\), which is often currently lacking. Programs have already been initiated in areas such as education, rural development, infrastructure and agriculture, with a significant emphasis on approaches to improve the circumstances of women in PNG.

A central element in AusAID's program aid strategy is to use its implementation to support institution building, that is, to develop skills and experience within PNG government
departments and agencies to help them improve the effectiveness of PNG public administration and governance. An example of this is the Royal PNG Constabulary (RPNGC) project, which may well extend to a 15 year program of targeted personnel training before its goals are considered to have been achieved.

Strains in the Relationship

The current Prime Minister, Sir Julius Chan has long been an opponent of this policy, which was first developed by Australia when he was PNG Minister for Finance. Nevertheless, his statements have also indicated that he knows the PNG economy is in too weak a position for his government to oppose Australian aid policy. Paias Wingti, when Prime Minister, professed to be unconcerned about the development of program aid, noting that the initiation of proposals for developmental programs was supposed to lie with PNG. The reluctance of the PNG government is probably tempered by the knowledge that rivals at the provincial and local levels favour program aid as more certain to deliver benefits.

What must also be annoying to PNG leaders is that decisions affecting PNG appear to have been made as a result of Australian administrative processes, where criticism of the worth of a program is mounted on the grounds of PNG's incapacity. In 1990 the Auditor General questioned the usefulness of Australia's budget support program because real living standards for most of the PNG population were lower than those for 'comparable developing countries.' In similar vein were reports in May 1995 of an investigation of DCP to PNG, conducted by the Inspector-General of Defence, which found the $500m spent in PNG since 1975 to have been ineffective in improving the self-reliance of the PNGDF.

Whatever irritation has been initiated by these events would have been further exacerbated by a new stand taken by Australia on development in the Pacific and by PNG's fiscal crisis of the last year. At the South Pacific Forum of August 1994, Australia succeeded in having adopted a policy which placed onus on regional states to expedite economic growth and to improve public sector administration to allow the full value of the islands' resources to be recouped. Although the proposals applied to the Forum members as a whole, there were clear implications of the failure of the PNG government (being the most prominent) to secure full economic value from its resources, particularly timber and fisheries.

When, in September 1994, the newly installed Chan government showed it was prepared to promptly tackle the fiscal crisis, Australia reacted by offering loan facilities and by rescheduling the delivery dates of direct budget aid, to reduce the short term impact of the devaluation of the Kina. This action involved considerable outlay (see p.13 above) but did not improve Australia's relationship with PNG. This was because Australia was taking a leading role in urging PNG to reform its economic policies in order to qualify for international financial assistance. Some of Australia's financial assistance was to be made available only when PNG acceded to World Bank conditions, and it was publicly stated that the direction taken by Australia in the September
review of the Development Cooperation Treaty would depend on progress made towards meeting the conditions of the international lenders. When terms on the financial package were finally agreed, Ajay Chhibber, the chief World Bank negotiator, stated that the package would not have been possible without the firm position taken by Australia, particularly in refusing any short term 'soft' loans.

It is obvious that the PNG government did not appreciate this approach. Sir Julius Chan had attempted to get agreement to a $100m loan in a sudden trip to Cairns to see Prime Minister Keating in April, and had explored the option of gaining a soft loan from Taiwan. On acceptance of the World Bank loan, Deputy Prime Minister Chris Haiveta criticised Australia for not advancing promised finance (which had, in fact, been subject to PNG acceptance of World Bank conditions). Many of the nation's leaders are smarting under a perceived loss of face which the World Bank intervention brings and are blaming Australia for not better supporting them. Indeed the level of public criticism of Australia in PNG has recently escalated to the extent that the Australian Foreign Minister has felt it necessary to publicly respond.

Similar despondency has struck relations between Australia and PNG before. At various stages during the fighting on Bougainville, PNG has reacted unfavourably to Australia's position on human rights violations and restrictions on the use of DCP supplied equipment and stores. Nonetheless, the Wingti government acceded to the visit by an Australian parliamentary delegation in May 1994, which was instrumental in breaking the stalemate on the island. If nothing else, recent events serve to remind Australians that PNG is an independent nation determined to follow its own policies. The current dispute is probably worse than most, but its proximate cause has now passed with PNG's acceptance of the World Bank's terms. It is probable that relations will improve with the aid review now unencumbered by questions of PNG's fiscal policy and with Prime Minister Keating to visit Port Moresby, Madang and Kokoda for the anniversary celebrations and the South Pacific Forum.

Nevertheless, there is a tendency in PNG's NGO community and student body to blame foreign countries for their own country's woes. Whether the World Bank loan will have a sequel as fiscal restructuring begins to disadvantage ordinary citizens and some might try to turn popular resentment against Australia, remains to be seen. Last year's events have demonstrated that PNG still expects Australia to take note of its concerns. From Australia's viewpoint the relationship is still strong, but can no longer be taken for granted.

**Conclusion**

Twenty years after independence, PNG is facing serious problems. The nation has much to do before it can offer most of its citizens any significant advance over the living conditions they experienced under the colonial administration.
That is not the whole story. The nation has confounded those critics who thought that
democratic government could not work in so 'backward' a society, or that the unrelated
constituents, amalgamated by colonial administration into a country, would spin apart when its
citizens were left to argue amongst themselves.

Pressures of those kinds have emerged and, especially in the case of the latter, continue to
surface. They have destroyed neither the polity nor the state. Two decades of independent
government has demonstrated that PNG has developed a degree of political sophistication
which surpasses that of many nations now embroiled in the breakdown of a state. However the
success with which PNG has adapted its traditional politics to function in a Westminster-style
democracy has not extended to government administration. Less has been done to improve the
situation of the people than could have been the case. The recent changes to the organisation of
provincial government may represent a chance to improve these circumstances, or the critics
may be proved right and national MPs may merely attempt to entrench their positions. Much of
the future of PNG will be determined by the outcome of this reform.

PNG's present challenge is to build on the effectiveness of its democratic traditions a system for
developing the potential of its citizens. Until PNG has the talent available and the systems in
place to administer a developing nation there will be little development. Because PNG has been
unable to overcome its major problems in the field of human development since independence,
results will not be achieved quickly, and the nation's hopes probably lie with the next generation.
And because nothing can be attained quickly, the citizens of PNG will have to endure harsh
conditions, limited opportunities and, often, the crime and violence which accompanies them, for
some time to come.

Although much damage to individuals, property and society itself will occur before conditions
improve, Melanesian society has well developed procedures for compensation and reconciliation
which remain sufficiently strong to sustain a sense of cohesion even in circumstances as trying as
those on Bougainville. The traditional values that the people of PNG have carried through the
colonial period and into independence have often been criticised as a hindrance to the
development of an effective modern society. Ultimately, they may be the source of sufficient
strength to carry PNG across the time required to build a more effective nation for its citizens.

Endnotes

1 'Papua New Guinea: 20 years since Independence', Parliamentary Library Information Service
   Backgrounder, 30 August 1995.
3 Economic Insights Pty Ltd. 'Papua New Guinea, the role of government in economic development',
4 ibid.: pp.1-2.
5 ibid.: pp.2-3.


Bill Standish, 'Plus ca Change, or back to Basics in PNG,' address to the *Australian Institute for International Affairs*, Canberra, 4 May 1995: p.1.


Bill Standish, 'Plus ca Change': p.3.

loc. cit.


ibid.: p.5.

More usually, the loss of a seat due to investigation of corruption is at the volition of the Member of Parliament concerned - the tribunal's authority to prosecute cannot be extended to the public, even where an ex-Member has clearly resigned to escape investigation.

Simon Pentanu, op. cit.: pp. 15-16.

ibid.: p.18.

Economic Insights Pty Ltd, op. cit.: pp. 64-65.

ibid.: p.67.

ibid.: p.13. and Standish, 'Plus ca Change':p.3.

ibid.: p.155.

ibid.: p.154.


The island provinces are Manus, East and West New Britain, New Ireland and North Solomons (of which Bougainville is the largest island). The south westerly islands,such as the Trobriands, are part of Milne Bay Province.


op cit.

ibid.

ibid.


ibid.

This formulation was taken from Simon Pentanu's address.

Philip Flood, op. cit.

Economic Insights Pty Ltd, op. cit.: p.xi.
Details of the economic and social situation in PNG can be found in AusAid (formally Australian International Development Assistance Bureau) publications such as 'The Papua New Guinea Economy', April 1993 and 'A Development Partnership'.


Economic Insights Pty Ltd, op.cit.: p.64.

Rt Hon Rabbie Namaliu, op. cit.: p.2.

Economic Insights Pty Ltd, op.cit.: p.64.


Economic Insights Pty Ltd, op. cit.: p.183.


Rowan Callick, 'Cashed-up Chan can have the last laugh', *Financial Review*, 31 August 1995.


Economic Insights Pty Ltd, op. cit.: p.8.


The background to the Bougainville conflict and the cease fire of September 1994 is provided in more detail in Derek Woolner *Mutual Advantage: Papua New Guinea politics, the election of Sir Julius Chan and Australian interests*, PRS Current Issues Brief; No. 19 1994, 22 September 1994.

Yaw Saffu, op. cit.: p.224.


For a detailed discussion of the problems facing PNG's attempts to control crime and public order see Bill Standish, 'The Search for Security in a Weak State'.

Joint Committee on Foreign Affairs, Defence and Trade, 'Australia's Relations with Papua New Guinea', December 1991: p.172: the FPDA involves Australia, Malaysia, Singapore, New Zealand and Great Britain in the defence of the Malaysian area from external military aggression.


Joint Committee on Foreign Affairs, Defence and Trade, op. cit: p.175.


Joint Committee on Foreign Affairs, Defence and Trade, op cit.: pp.140-141.

Pilita Clarke, 'World Bank puts PNG on reform hard rations', *Sydney Morning Herald*, 30 August 1995


Joint Committee on Foreign Affairs, Defence and Trade, op. cit.: p.142.
67 ibid., p.138.
70 Pilita Clarke, loc. cit.