

PAPUA NEW GUINEA AND THE PACIFIC

By Klaus Rohland, World Bank.

Ladies and Gentlemen,

These are trying times. We just witnessed senseless terror and slaughter in Bali, tears and mourning all over Australia. The nation grapples with the new reality: There are no safe havens anymore, terrorism has come into the neighborhood and has come to be a fact of life. On Sunday in the domain I saw people mourning in the spirit of togetherness and I was reminded of that wonderful 16th century saying “No man is an island, entire of itself; every man is a piece of the continent, a part of the main...”.

These are times to pause and reflect. No man is an island, and no country can live in isolation. What happens elsewhere has an immediate bearing on the life of ordinary people. Knowledge about what is going on in other countries will be essential. Foreign policy has ceased to be an arcane subject, an informed discussion about the choices we have is called for, not just in academia but throughout society, in the broadsheets and tabloids.

Dear Deputy Vice Chancellor, dear Peter Mares, Ladies and Gentlemen.

Thank you for having me here tonight. Australia and the World is the theme of the lecture series. My world today is the Pacific Islands and Papua New Guinea. I will talk about economic and social development and what Australia, other donor countries and the International Financial Institutions can do to help the people in

these beautiful countries to have a better life – a world free of poverty for their children.

Almost 30 years after independence Papua New Guinea's development record is dismal. According to World Bank figures the country has hardly made any progress on development indicators. GNI in 1977 was USD490, as of 2001 – in real terms significantly lower than 25 years ago. Adult literacy stood at 32% in 1977 compared to 36% in 2001, life expectancy was 48 years then and has improved to 59 years in 2001. Infant mortality has stagnated around 80 per thousand. At the same time, the population has grown from 2.9 million to over 5 million. And most worryingly HIV/AIDS is rapidly increasing: Papua New Guinea ranks 4th in East Asia after Myanmar, Vietnam and Thailand. A recent survey in Port Moresby showed that 1% of women giving birth during the last six months had been infected by the virus.

Overall, the Pacific Human Development Report that was released by UNDP in 1999 confirms this dismal standing. When it comes to Human Development Indicators PNG ranks 164th in the list of the World's countries - close to Djibouti and Chad, two of the poorest countries in Africa.

The picture for the Pacific Island countries is much more diverse – in terms of UNDP's Human Development Indicators the smaller islands states – mostly Polynesian – rank highest, whereas the other Melanesian economies such as Vanuatu and the Solomon Islands rank low at the end of the scale comparable to PNG as 140th and 147th, respectively. Life expectancy is generally high but there has been an increase in “life style diseases”. Accidental deaths and suicide rates are higher than in comparable countries elsewhere, especially among youth. There is a resurgence and emergence of infectious and vector borne diseases, such as malaria in the Melanesian parts of the Pacific. Poverty in terms of hunger and lack of shelter does not figure prominently in the Pacific and there is a traditional safety net through the extended family that provides for social protection. But there are

pockets of abject poverty emerging and the traditional social safety net shows signs of strain as people move into the cities. And Pacific Islanders suffer from a poverty of opportunity: Their remoteness and small size, the lack of employment opportunities have led to large scale migration, especially in Polynesia. Remittances from overseas form a large part of the household income in many Pacific Island nations.

These are some broad generalizations about the state of development in PNG and the Pacific Islands. Like any generalization they hide huge diversity between the countries. In terms of performance, Pacific Islands range from countries such as Samoa that has emerged as the best performer in the region. Countries such as Tonga, Vanuatu and Fiji where economic management has been put under strain by political events, islands in Micronesia are grappling with the renegotiation of their compact with the US who demands greater accountability in the use of its substantial assistance, up to the Solomon Islands that threatens to be the first failed state in the Pacific.

But the overall verdict is clear: Pacific Islands as a group have only experienced moderate growth during the past decade ranging from minus 1.4% to plus 2.9% per annum. All in all, they have not grown faster than countries of comparable state of development in other parts of the world.

Yet at the same time, these countries have received substantial development assistance. Indeed, on a per capita basis assistance to Pacific Island countries is probably the highest in the world: To mention a few figures: The development assistance that FSM receives is equivalent to 40% of its gross national income, it is 22% in Kiribati, 19% in Vanuatu, 18% in the Solomons and 10% in Papua New Guinea. And Australia has provided a large share of grant assistance to these countries, ranging from 76% in PNG to around 30% in the other countries of the region.

Common wisdom would suggest a positive correlation between the level of aid and the attainable rate of growth. Yet, our research has shown that there is no such simple correlation: Only in countries that have Governments that conduct good policies has aid a positive effect on development. Good policies in this sense implies good fiscal policies, low inflation and the pursuit of the openness of the economies. It is in these areas that some Pacific Islands, including Papua New Guinea have fallen behind significantly in the 90s.

PNG is an example. Time limitations permit me to focus mainly on PNG today. But as we focus on Papua New Guinea we do not overlook that other Pacific countries have fared better, and, in some cases, have taken early action to address issues of policy performance. But the story of PNG is a story of Melanesia. It is a story that provides for important lessons as we struggle with the development of traditional and remote societies.

In its early days, PNG enjoyed a good reputation for macroeconomic management. But this changed in the 1990s as a result of a combination of external shocks, fiscal excess and a marked deterioration in the institutions of government and policy making. Subsequent Governments have tried to focus on containing the budget deficit, improving economic management and reorienting spending towards investment in priority sectors such as infrastructure, but largely in vain.

In response to crises, Governments have sought to contain the budget deficit through one off actions such as increasing debt levels and requests for extraordinary financing from donors. But Governments failed to address the underlying structural issues in restoring fiscal management and governance. As a consequence with each new crisis, one off solutions were increasingly less of an option and the amplitude and duration of each crisis increased. PNG just experienced another fiscal crisis when the outgoing Government blew the budget through excessive and largely off budget spending that if unattended could lead to a non sustainable fiscal deficit of around 8% this year. More than ever it is evident today that PNG's

present fiscal crisis can only be solved through far reaching structural reforms in fiscal management and governance.

At the heart of PNG's fiscal crisis lies a lack of good governance. Civil service at its higher levels has no security of tenure. High level public employees such as department heads serve at the pleasure of the Government of the day and can be dismissed by the Ministers on short notice. Rules and regulations governing fiscal management are generally adequate. But in a prevailing atmosphere of intimidation attempts to break rules by Ministers are usually not sanctioned: Ministers meet with minimal resistance by officials and get away with impunity. And Officials are bound to emulate the bad example whenever they exercise discretionary power. As a result, corruption is pervasive in the country's civil service.

Lack of good governance is based on a lack of nationwide social capital. By social capital I mean the trust and support that individuals accord to each other. In PNG it is fragmented along social and cultural lines. And with about 800 language groups, most of which are also separate socio cultural groups, traditional groups are usually small. Cooperation is strong within groups but drops dramatically between groups. As a result there is no unified constituency to ensure accountability or articulate demands on leaders.

Lack of good governance is further facilitated by the political system: Government is a Westminster system and members of Parliament are elected by a first past the post system based on a single round of voting. In many cases members can be elected with 10% of the vote. This system encourages candidates to focus on mobilizing support of a small group of the electorate- especially those from each candidates social group.

Campaigning is based through traditional redistributive relationships and if elected leaders continue to redistribute a continual flow of resources to their

followers. In this context, fiscal assets of the state are used to build the political strength of the incumbent minister who can exercise discretionary control over large resources with little transparency or accountability.

It is fair to say that this system has been widely accepted in PNG until recently. The emergence of a civil society that stretches beyond ethnic boundaries has prepared the country for a constitutional debate that at long last might address the issue. The Law of the Integrity of parties has made it much more difficult for individual Members of Parliament to change sides and all parties are committed to change the voting system. The key issue here is that the electoral system needs to be organized in such a way that political accountability is fostered and citizen participation and voice is encouraged. Preferential Voting Systems such as the *Hare System* or *Approval Voting* might provide the answer.¹

These methods of preferential voting induce candidates to respond to a majority of voters rather than to cater to minorities who could give them a winning margin in a crowded plurality contest. The likely winner is the candidate most acceptable to the entire pool of voters. It is clear that such a system would go a long way to establish a more broad based representation of voters and to reduce incentives for politics as business.

Politics as business is pervasive in PNG. Indeed, in its extreme, politics as business is blatant corruption. The recent history of PNG is unfortunately rich of cases that, at least on first sight, may fall into this category.

¹ Under the Hare system each voter ranks candidates according to their preferences. The first votes for each candidates are tallied, and if a single candidate gets more than fifty percent of the votes he is elected. Otherwise the candidate with the fewest first choice votes is eliminated and the second choice votes in those ballots are allocated to the remaining candidates. This process continues until one of the candidates has a majority of votes and is declared the winner. Under an approval voting system voters can approve as many candidates as they wish, each candidate proved of receives one vote and the candidate with the most votes wins. Research has shown that such a system can work in developing countries even where society is undereducated and unsophisticated.

The degree of Corruption is usually defined by the amount of discretionary power minus accountability and transparency. Reducing discretionary power through the introduction of a rules based system is one lever to address the lack of governance. But good rules and processes are not enough in an environment where rules can be bypassed with impunity: What is needed are rules that enforce accountability.

This is where the judiciary, the Ombudsman, the Office of the Auditor General and other institutions under the Public Finances Management Act come in. “Frying the big fish” is a well tested concept in the fight against corruption .

In PNG the leadership tribunals have been successful in this regard early on, but only rarely have cases of suspected abuse of discretionary power been fully investigated and brought to Court in PNG. And even those that have been sentenced returned to public life later on. A conviction on Corruption charges did not exclude people from holding offices in the future. More must be done in this regard to demonstrate to the public at large the seriousness of abuse of power and the cancerous effect corruption has on society. In this context, I salute the work of Transparency International and the recent campaign of the Media Council to raise awareness. This is another promising sign of the emergence of civil society.

So much for policy performance in Papua New Guinea. The obstacles on the road to good governance are high. Yet they can be overcome.

First, we all should take heart from the fact that the constitutional arrangements for the voting system are being addressed.

Second, recent public awareness of the pervasive nature of corruption gives rise to hopes. Corruption in its blatant form of personal enrichment through the abuse of power is no longer acceptable in PNG. The present high profile cases around the National Provident Fund provide Government with an opportunity to

demonstrate its seriousness to stop corruption. Support of PNG's development partners in this regard will be vital. And if Government continues to pursue reforms in the forestry sector, the single most important source for corruption might dry out.

Now what about the lack of social capital? How can trust beyond kinship be developed? Above all how can a trust based relationship between the Government and the people of Papua New Guinea be forged?

There are no easy answers to this. But we know that we are living in an era when social capital is crucial for developmental success much more than endowment with physical capital. Only societies with a high degree of social capital will succeed. Yet we cannot divorce economic from cultural life. Creating social capital on a nationwide scale in Papua New Guinea is bound to take time. But you have to begin somewhere.

Presently there is no trust between the people and the Government of Papua New Guinea. Waigani is far away from the villages. There is a breakdown in service delivery. Health stations have no pharmaceuticals, schools have no books, roads and infrastructure are falling apart and in Port Moresby and other towns there is a general sense of insecurity because of the law and order situation. In short, people have not received services from the Government for a long time.

In order to rebuild social capital it will be crucial that Government is in a position to provide services again. Once the people in the villages realize that Waigani cares and provides reliable support to their lives, a first step will have been taken. But Government cannot do this alone in its present state of weak capacity and leadership.

And this is where the donor community comes in. Papua New Guinea receives an amount equivalent to 10% of its Gross National Income through aid.

This is twice as much as Sub Sahara Africa and by any standards a sizeable amount. Donors, above all AusAID, have done marvelous work in helping individual people in Papua New Guinea to improve their lives. Yet donors have failed to address the systemic issues in service delivery through Government. Indeed, it can be argued that donors, through their own ways of service delivery have further weakened already frail Government structures.

Consider Australia's development assistance to Papua New Guinea. Until 1994 aid was given directly as budget support without any conditions. Concern in the Australian public about ineffectiveness and a lack of control on spending led to a change in policy: As of 1994, Australia resolved to deliver its aid program on the basis of projects instead of annually disbursing AUD300 million into PNG's budget.

This shift in policy was understandable as a reaction to the perceived lack of governance in Papua New Guinea. But it reduced PNG Government's ability to deliver services on its own. To a more limited degree it also affected projects by International Financial Institutions and other donors who, in the absence of Australian budget support were faced with a shortage of counterpart funds for their activities.

Increasing failure of Government to provide for services and to maintain adequate Governance structures led donors increasingly to bypass Government structures when delivering aid. It is estimated that more than 60% of Australia's assistance to PNG is delivered and executed by Australian consultants largely outside Government structures. And the figures for other donors are probably similar.

Service delivery outside Government can be justified in times of emergency. It is also a way to address the needs of the poor in times of conflict or in a post conflict situation. It can also be a very effective way of service delivery. Indeed, because of the prevalence of Australian assistance: More than 75% of assistance to PNG comes from Australia; villagers increasingly look to AusAID and its dedicated aid workers as their service providers. But there are questions on sustainability. It

does not leave financial structures behind on which to build when the project finishes.

More importantly, effective service provision outside government structures at the village level comes at a price: It further erodes the role of Government as a service deliverer and its legitimacy towards its people. In short it erodes whatever social capital has been accumulated by Government. *In extremis* we have seen this in post conflict countries in Africa, in the great lake area where international NGOs have substituted for Governments and where the rebuilding of states has been hampered by the inability of Governments to be meaningful to their people.

What needs to be done? Nobody would argue for a return to unconditional budget support in a situation of weak Government structures. But rather than bypassing Government and aggravating the problem further, donors need to focus squarely on the systemic issues. To strengthen the service delivery, capacity of Government assistance has to go through Government and Government needs to be helped in the provision of services.

Much needs to be done in this regard. Donors would have to bring their support within the budgetary framework. Rather than financing their “own” projects, they should move to finance slices of the Government’s program.

This requires a focus on planning. Donors will only consider this when they have comfort in the priorities of Government programs. Government needs to develop a medium term strategy to improve development outcomes. It needs to answer the simple questions: Where are we in terms of development? What is the state of education? Of Health? Of Poverty? Where do we want to be in, say ten years time? And how do we get there? Donors need to assist Government in preparing such a strategy. Most importantly such a strategy needs to be broadly discussed in the country with the people, in the villages and towns of Papua New Guinea. A joint strategy being borne by the people and the Government alike and

supported by the international community will go a long way to rebuild trust and social capital.

It also requires a focus on implementation and on strengthening of Government structures. This is not impossible. Many of you would recall that PNG had a well performing civil service until well into the 80s. This can be rebuilt with the help of international assistance. Such assistance needs to be more than advice. At the request of Government development partners need to consider seconding experts into line functions in Ministry whenever there is a critical weakness and lack of national expertise. Twinning arrangements between departments in Port Moresby and, say, departments in Canberra or other capitals are also a promising option.

It finally requires a much more cohesive approach of donors. Donors need to buy into the development strategy and complement each others contributions. Only in the spirit of partnership can we make sure that the whole is more than the sum of the parts.

Is this realistic? It is optimistic. But there are encouraging signs that it might work. To begin with Government has realized that it needs to adopt a medium term framework to overcome the present crisis. Also, the people of PNG have become much more vocal in their demands for development and participation. And on a global scale donors have committed themselves to working towards shared development goals. This is currently translated into intensive strategic discussions between major development partners in PNG on a joint vision and strategy for their work in the country. Australia's aid agency is driving this process together with the International Financial Institutions.

Ladies and gentlemen,

From listening to the people in the villages of Papua New Guinea a vision for the country emerges. A Papua New Guinea on the move. On the move at long last, towards alleviating poverty. Towards better education and health. Towards law and order. Towards a better life for her children.

And there is a strategy emerging for rebuilding the role of Government. It is based on participation and empowerment of the people. It can gain widespread international support and cooperation.

A vision alone leads to nowhere. A strategy without a vision is bound to fail. A vision and a strategy can move mountains.