Understanding reform in Papua New Guinea

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This study analyses reform exercises in Papua New Guinea. The measures adopted so far have been extensive. Politically, some of the reforms have been significant in that they required constitutional amendments and bordered on politico-constitutional re-engineering. A number of reforms have led to structural changes since they have altered the power base in the country and among the different levels of government. Economically, some of the reforms promised to be, and were, significant, such as the privatisation of state assets, currency floating and new financial regulations.

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This article is part of a global study on reforms initiated by the Global Development Network and supported by the Australian Agency for International Development and the Foundation for Development Cooperation.[1] The research posed three questions

- why do countries reform?
- what factors enable countries to adopt reforms, and how do these factors shape reform design and implementation?
- how well did the reforms perform? What are the results?

Background

Reforms are implemented for a purpose, but the decisive point is when the stakeholders of a reform exercise are identified. To know who they are and what interests they represent is to understand their motives (see Fidrmuc and Noury 2002). Other points can also be used as precursors for proper analysis—if reforms were needed, whose interests have dictated the manner in which reforms were instituted in the country? And, if reforms were pegged to the political will of decision-makers (or politicians), how can one describe the link between the power and authority to do something (that is, the will) and results that have been attained or seen so far?

In 1990, Papua New Guinea adopted its first structural adjustment program (SAP) under the auspices of the World Bank and International Monetary Fund (IMF), as many other developing countries had done in the early 1980s. This program was adopted due to economic difficulties ranging from balance of payment shortfalls to excessive budget deficits. By the 2000s, the implementation of these programs fell well short of expectations. In fact, there has been very little fundamental change to the PNG economy as a result of the SAP.

The country continues to record negative growth in GDP per person and is among the worst performers in the world in the human development indicators assessment. With a population of 5.3 million people (36 per cent higher than in the 1990 census) and an annual growth rate of 3.1 per cent, compared to 2.7 per cent in the 1990s, over one-third of the population now lives in absolute poverty according to the Asian Development Bank (2001). The country's per capita income fell by almost 75 per cent from a high of US$1,300 in 1994 to US$744 in 2000 as the economy entered a non-transitory recession (*The National*, 24 September 2001). The country's rural infrastructure has collapsed and macroeconomic management has produced unsustainable results with inflation oscillating rapidly between 9–21 per cent and a public debt ratio of 75 per cent of GDP.

Hypothesis and research methodology

For Papua New Guinea the study revolved around the hypothesis that Papua New Guinea has failed to develop economically and socially because reform initiatives have been implemented poorly. This has resulted in reforms critical for Papua New Guinea's development being overlooked, while other reforms unimportant or counterproductive to Papua New Guinea's development have been implemented. The poor prioritisation of reform is likely to be a consequence of the reform agenda being driven from outside rather than from within Papua New Guinea.

To test this hypothesis, the study evaluated the economic and political reforms implemented since 1990. The political economy approach was used to evaluate and understand the various reforms and enabled us to decipher the interplay between politics and economics. The main thrust of the argument is that the narrow implementation of economic reforms without concomitant political and institutional reforms is likely to produce sub-optimal results.

The methodology adopted for this study is the case study approach propounded by Yin (1989, 1994; see also Stake 1995, 2000). This method entails in-depth interviews and is the most appropriate strategy to capture the strategic value and dynamic nature of human interactions over time and space that takes place in the implementation of policy measures.

The researchers undertook in-depth interviews in Port Moresby with key decision-makers who were directly involved in the processes of economic and institutional reforms as well as the implementation stages. Interest groups affected by the reforms were also interviewed.

Government documents relating to the reforms and independent documentary sources were collected and used to triangulate data collected from the field. The chapter was also presented to various public forums in the country to fulfil the requirement of researcher and data triangulation described by Patton (1990) as a requirement for evaluative research.

Phases of reform

Reform measures in Papua New Guinea have been evaluated in the context of three broad reform phases, each of which was prompted by a liquidity crisis. Phase I spanned the period 1990–92. Reform measures undertaken during this period were prompted by the abrupt closure of the Bougainville mine in May 1989.

Phase II covered the period 1994–97. This was prompted by a major liquidity crisis caused mainly by massive expenditure under the Paias Wingti government that came to power in the 1992 elections. Phase III spanned the period from 1999 to the present. Following the 1997 election, Bill Skate's government fell out of line with the World Bank and IMF, almost crippling the country's management systems, when it attempted to implement measures outside the international creditors' terms and conditions. Skate's reform period was dubbed 'adjustment without the loans' (Filer et al. 2000), which resulted in heavy domestic borrowing that crowded out the private sector and foreign exchange rationing aimed at protecting meagre international reserves.

It needs to be explained at the outset that our usage of the word 'failure' is in the policy context rather than state context, although both phenomena could exist in the same continuum. We also use this term in the context of the study's hypothesis. A hypothesis remains as such—a conjecture that requires refutation—as in the Popperian sense (Popper 1963).

Reforms in Papua New Guinea

This study examines the extent, nature and implications of economic and political reforms in Papua New Guinea, focusing on the period 1990–2003. Structural adjustment programs were undertaken during the three phases identified above, and involved significant reform efforts, including

- administrative reforms to the provincial government system (1997)
- private sector wage liberalisation (1992)
- public sector reforms (1999)
- a currency float (1995)
- corporatisation as a prelude to privatisation (1990)
- investment deregulation (1990)
- trade policy reform (1990)
- tax and tariff reforms (1999)
- political party and electoral reforms (2001)
- financial sector reform (2001)
- and forestry reform (2000).

The key reforms are contained in Table 1.

Analytical framework for understanding reform

The concepts 'stabilisation' and 'structural adjustment' are vital parts of the Structural Adjustment Programs. Stabilisation refers to the correction of a balance of payments disequilibrium. It is often associated with the IMF, and is meant to be a short-term measure to deal with the depletion of foreign reserves due to excess demand for foreign currency. As a demand management tool, stabilisation also entails the correction of unsustainable deficits in the budget. Adjustment, on the other hand, is normally executed by the World Bank. It is often a medium-to-long-term strategy that is purposely designed to stimulate supply or production by giving aid to targeted projects.

Structural adjustment programs have been among the key tools used by the Bretton Woods institutions to assist aid recipient countries. Recipient countries had the option of carrying out internally induced reforms to effect their own changes and to complement the structural adjustment programs.

Political economy and rational choice

The study of political economy concerns the interplay between actors in politics and

Table 1 **Key reform sectors**

SAPs	Phases	Governments
1990–92	I	Namaliu became Prime Minister in 1988 Wingti became Prime Minister in mid 1992 after national elections
1994–97	II	Chan became Prime Minister in 1994 after court ousted Wingti Skate became Prime Minister in mid 1997 after national election Chan lost seat in election
1999–present	III	Skate resigned as Prime Minister in mid 1999 Morauta became Prime Minister in mid 1999 Somare became Prime Ministerin mid 2002 after national election

Reform area	Phase	Pushers of reform	Reasons for change
Public service	II and III	Chan and Morauta governments, even though reforms have been undertaken since the 1980s. Skate unsuccessfully tried to implement the retrenchment exercise. The World Bank supported Morauta.	Perceived poor performance of the public service. Expensive bloated bureaucracy.
Wages and employment	I	Local think-tanks and World Bank behind minimum wage deregulation.	Reduce market distortions in wage levels.
Currency flotation	II	IMF and Chan government	Protect the kina and create enabling exchange rate
Trade reform	I and III	World Bank, APEC, Namaliu and Mekere governments	Create level playing field and remove export constraints
Forestry	I, II and III	Papua New Guinea governments since 1990 and the World Bank	The need to balance forestry as a source of hard currency for Papua New Guinea and conservation. Tropical forest is a global common good.
Budget	II and III	World Bank, external experts, and financial institutions such as the Australian Export–Import and Insurance Corporation. Also, the Bank of Papua New Guinea.	Continuous budgetary deficits due to overspending tendencies.
Provincial government	II	Chan government	Old system allegedly cumbersome in serving the people.
Land reform	II and III	World Bank with the Chan and Morauta governments respectively.	With 97 per cent of land under customary ownership, problems relating to investment incentives are apparent.
Integrity Law	III	Morauta government	Coalition instability preventing good governance.
Limited preferential voting system	III	Morauta government	Legitimacy crisis apparent under first-past-the-post system as MPs were winning with reduced margins.
Financial sector	III	World Bank in 1999.The IMF and World Bank undertook other reforms since 1990.	Poor governance of financial institutions, particularly under Skate.
Privatisation	III	Morauta, local think-tanks, World Bank and international donors.	Worsening inability of the government to maintain state-owned enterprise profitability.

economics. The degree of interaction varies among countries and depends principally on the roles of the respective actors from both sides. In the pertinent literature, business entities are the foremost actors that represent the economic sector. When the interplay of politics and economics is projected against important policy options, interesting questions become apparent. In particular, we may ask why some countries react to an economic situation in one way, while others react differently. This suggests that what is important politically is not necessarily the same as what is important economically.

Understanding the relationship between the political and economic spheres is useful in understanding and analysing structural adjustment programs in many countries. The successes and failures of structural adjustment programs depend on the effort and commitment accorded to them. Analysing the aftermath of the twin oil price hikes of the 1970s, Joan Nelson (1990:5) confirms what is already anecdotally known—political choices often determine the fate of structural adjustment programs and economic reform more generally.

There have been findings from some recipient countries suggesting that the Bretton Woods institutions' SAPs might have exacerbated existing problems. What is apparent then is that what would be considered necessary and even indispensable for resuscitation of the economy may not be readily seen as such by individuals whose interests probably extend beyond purely economic concerns, but who are making political decisions. In Papua New Guinea, the most basic requirement of expenditure restraint and increased investment in wealth-creating assets is made difficult by the fact that handouts for trivial matters such as plane tickets are constantly demanded by the populace.

Rational choice theory also offers another useful theoretical framework that can elucidate an individual's drive to do well for personal gain through whatever opportunities present themselves. Generally, both theoretical approaches work on the assumption that individuals are economic beings who have the tendency to make choices that would maximise gains and, conversely, minimise loses. In relation to structural adjustment programs, it would be counterproductive for politicians to adopt SAPs that compromise their own interests. They would rather look for more favourable options that simultaneously protect their own interests, or worse still will completely ignore the SAPs and shift the blame for failures to other things and even other individuals.

The interplay of Papua New Guinea politics and economic reform

Implicit in this study is Papua New Guinea's poor state of economic development. Some of the causes are bad governance and poor management by successive governments since the 1970s, law and order problems and poor infrastructure are the key constraints (Levantis and Manning 2002). A compelling argument put forth by Andres Ruis and Nicolas van de Walle (2003) is that the level of economic development is important to understanding the success and failure of economic policy reforms.

Compared to low-income countries, middle-income countries are more receptive to reforms such as trade liberalisation, privatisation, and macroeconomic stabilisation. First, middle-income economies tend to have diversified economic structures that can allow some latitude for governments to manoeuvre and also cushion fallouts from reforms. Second, middle-income economies generally tend to be supported by strong state capacity.

One of the problems that Papua New Guinea faced during its transitional phase to statehood was inadequate private capital among the national population. That meant that there was little investment capacity among the people. Big business enterprises were left to companies, many of which were owned by foreigners, and a small emerging local bourgeois class. But with the advent of the cash economy and capitalism in general, people sought opportunities that could fulfil their desires for improved quality of life and also provide material gains.

The cooperative and savings and loans society movements of the 1960s and 1970s were the main conduits for domestic capital accumulation through the popular practice of resource pooling (see May 1998). ROSCAS or rotating credit schemes, popularly known in Papua New Guinea as *sandes*, were also used to practice the art of modern cash savings. In 1978, the national government reformed the plantation sector by introducing the plantation redistribution scheme. Through this scheme, plantations were returned to landowners in order to promote a vibrant rural smallholder agriculture sector.

The endeavour to prosper was no secret, and generally Papua New Guineans were mesmerised by the 'magic' that capitalism exuded. The established culture also provided unique inclinations to amass wealth through capitalism. Present among many traditional Melanesian societies, including Papua New Guinea, is an unrestricted system of status mobility. In contrast to structures based on birthright or heredity, merit-based structures are open systems where people can move up through achievements that are valued by the societies concerned. 'Bigmanship' is a concept coined to describe this type of social status (Finney 1973).

Like many traditional practices, the culture of bigmanship was redefined as the modern political system introduced new opportunities. The state system introduced these opportunities. People began entering national politics and the public service with the ultimate goal of using their public positions to gain higher personal status. 'Wealthy' bigmen began aspiring to political roles at the government level (Standish 1983). On other occasions, the bigman MP kept what he acquired for his private use. Sometimes the traditional bigmen has sponsored a follower or a son to run for office with the hope that he would deliver benefits back to the tribe.

The general point, however, is that, without any established culture or accepted mode of conduct to offer any protection to the state and its institutions, these governing and administrative entities eventually became the means through which well-positioned and self-aggrandising individuals could acquire business opportunities and monetary gains. Corruption is just one among the many factors that epitomise the outward manifestation of how the state system has been manipulated for private reasons (Okole and Kavanamur 2003).

Political and economic reforms

The reform measures evaluated in this sphere of Papua New Guinea's reform experience include the public service, the provincial government system, the Organic Law on the Integrity of Political Parties and Candidates, and the limited preferential voting system.

Political reforms

The public service. The public service has generally been characterised as ineffective and lethargic in its performance, at least since the late 1980s. Systems and procedures have broken down and incapacity has crept in over the decades. The public service and other state institutions appear to have been 'captured' by private and sectional interests. The main task of reform then is to revamp the public service. It must be said, however, that some of the earlier reform measures may have actually contributed to the collapse of the public service. For instance, The Public Service (Management) Act 1986 resulted in the dismantling of the constitutional role of the Public Service Commission and the creation of the Department of Personnel Management. As a result, parliamentarians were given greater leeway to control the public service, which then increased the level of politicisation in the public service. Appointment processes were abused, and theft and corruption became rampant. Attempts at retrenchment have produced little result. However, a serious attempt now appears underway to restore the independence of the public service with the restoration of the Public Service Commission's powers. This is going to take time because not only do structures and processes have to be rebuilt, the appropriate culture has to be re-inculcated. Other reform exercises are also being implemented, such as the Public Expenditure Rationalisation and Review and the Financial Improvement Program supported by the Asian Development Bank (ADB), AusAID and World Bank.

The provincial government system. A key reform adopted during this period is the replacement of the old Organic Law on Provincial Governments (OLPG) instituted in 1976 with the new Organic Law on the Provincial and Local Level Governments (OLPLLG) in 1995. The reform, covering both processes and structure, was said to be home-grown and wholly driven by the Chan government. It is now obvious the new law has failed to achieve what it set out to achieve. A number of constraints can be cited: there are not enough people at the local government level who can carry out their delegated responsibilities, funds were built into legislation when clearly the state does not have the capacity to pay, the increased presence of politicians at the various levels of decision-making have hampered good governance principles, and monitoring and evaluation have collapsed. Essentially, however, these problems have stemmed from a basic error—the strategic intent of the reforms was not aligned to the prevailing environmental factors, resource capacity and culture. Although reforms to structure and processes were undertaken, the reform process increasingly became misaligned because of important omissions in the design phase. The initiators of reforms were driven by power politics between provincial politicians and national politicians when the latter group felt it was being outmanoeuvred by the provincial politicians at the local constituency level in terms of popularity and resource distribution. The Somare government, however, is currently canvassing strategies to correct anomalies. Apparently, service delivery to rural areas has collapsed because of inefficiencies in the provincial government and local-level government delivery systems.

Limited preferential voting system. The Morauta government felt that economic reforms depended on political stability and therefore decided to reform the voting system. The political landscape in Papua New Guinea is characterised by frequent changes of government and high turnover of politicians. Part of the explanation stems from the voting regime. Under the first-past-the-post system PNG politicians tended to win seats with very small margins because each electorate tends to have a large field of candidates and because the party political system is highly fragmented and evades conglomeration. The limited preferential voting system was introduced as a home-grown initiative to stabilise the political system by encouraging broader coalitions. A clearer picture of the outcomes will be gained after the 2007 elections, but anecdotal evidence from a couple of by-elections thus far points to positive results.

Economic reforms

Reform measures evaluated here include wages and employment, the budget, financial sector, privatisation, land reform, and forestry.

Wages and employment. A significant reform that took place at the beginning of the reform period under study was the sweeping deregulation of the labour market. This had previously proved difficult but, after the Bougainville closure and much intellectual debate about the merits and demerits of labour productivity and competitiveness, the pro-reformers finally had their way. There was little resistance, as there appeared to be a consensus that competitiveness needed to be improved and jobs needed to be created. Others have argued that the other side of the house was disorganised. In terms of the results, our study demonstrates that, although real wages have fallen, nominal wages have not due to market rigidities.

The budget. Concerns throughout much of the reform period have revolved around the need to set realistic budgets and devote sufficient funds to the creation of an enabling export environment. There has also been the need to address the ongoing problems of deficit-financing and debt accumulation. Reform measures have been put in place to reduce expenditure on recurrent items that do not generate wealth. Departments have been asked to exercise fiscal discipline. The ability of the government to increase domestic borrowings through the central bank has been limited to K100 million at any time as a result of reforms to the Central Banking Act. But sustained positive results are not yet in sight. It appears that, given the high level of public debt, fiscal indiscipline urgently needs to be reined in, partly through greater compliance to expenditure ceilings and partly through prudential investment in wealth generation projects.

Financial sector. Papua New Guinea has a small financial sector that requires financial deepening and broadening, and this in turn will be influenced by the volume of business and the general law-and-order situation. With privatisation and restoration of peace and good order, the sector is bound to expand. Although there were some financial sector reforms throughout the reform period, they took a more serious turn when the Morauta government came into power in 1999. In fact, it must be noted that this is perhaps one of the few reform areas that have produced some early relatively positive results.

Privatisation. Privatisation has been a sensitive area of reform because it evokes a strong sense of nationalism and because politicians have used public enterprises as cash cows or reservoir of useful positions to which political cronies can be appointed as pay off for political support. In the entire period of reform only one fully government-owned enterprise was privatised. Even this was not easy in the face of strong opposition from both the unions and university students. Sadly, riot squad police killed four protestors as the issue of privatisation got entangled with the issue of land reform. The Somare government that came to power after the 2002 elections decided to reroute the reform process through a strategy known as 'Public–Private Partnership'. Under this policy, no new public enterprise is slated for privatisation; almost all public enterprises currently still in government hands are technically insolvent and are being rehabilitated.

Land reform. Land reform is akin to the privatisation issue, attracting much public outcry. Only 3 per cent of land in Papua New Guinea is alienated for development purposes. The remainder is held under different customary land rights. Land reform will only take place once the populace fully understands the benefits that will accrue to them and their country.

Forestry. The issue of forestry reform is one of the most convoluted that this study has had to grapple with. There are numerous stakeholders, including landowners and counter-landowners, the national government, various government departments, international and local non-government organisations involved in green politics, the World Bank, consultants, and so on. Allegations of corruption have raged on for decades since the Barnett Inquiry in the 1980s. The issue is inextricably linked to the land issue and poverty, further complicating policymaking in the sector. Forestry is inexorably caught up in controversies over land, environmental conservation, and economic benefits. In this study we conclude that reform in this sector will remain controversial for a long time yet.

General views from the study

It would be a fallacy to assume that there is a set of uniform explanations for all reform successes and failures in Papua New Guinea. How reforms have fared depends to a large degree on the environment surrounding the decision-making, policy design and implementation stages, and the general nature of the relationships between the major stakeholders.

Revisiting the hypothesis

The evidence from this study shows that implementation of reform initiatives was indeed poor. The weak capacity of the state to institute the reform programs was one main reason. The political instability characterising much of post-independence Papua New Guinea has resulted in poor commitment to the structural reform programs and other reform areas as political survival became a more salient issue for parliamentarians.

Also, the need to retain favour with the public has meant that some of the more controversial reform programs were either attempted only half-heartedly or left unimplemented. Privatisation of state-owned enterprises, land reform, and the retrenchment of public servants are difficult issues for any government to confront due to their immense sensitivity in relation to the public and those directly affected. That is why it is futile and perhaps unfair to PNG governments for institutions such as the World Bank to impose stringent conditions—for example, land registration—that are almost impossible to carry out given the cultural and political conditions.

However, it would be a misrepresentation to assume that implementation problems are entirely due to the state's administrative incapacity. Poor macroeconomic conditions have been part and parcel of the government's incapacity from the start. Papua New Guinea has not been able to achieve favourable economic growth for any respectable time span since independence. Therefore, any reform was always bound to be difficult. Thus, while the reforms were initially motivated by poor economic growth, the lack of economic growth may be taken to imply that these reforms failed. This lack, however, should really be attributed to the absence of a whole of government and economy reform, a reform that was comprehensive and strategic in nature. Successful reform requires early gains and would necessarily require the invocation of the principle of 'success begets success'.

Another area of the hypothesis that needs to be re-examined carefully is the assertion that the poor prioritisation of the reform is a consequence of reforms being pushed from outside rather than from within Papua New Guinea. The failure of reforms has been caused by both foreign and domestic sources. Some of the main reforms in the 1990s, such as the amendment to the Provincial

Government Act, were pushed through by the incumbent government. Holding foreign actors accountable for all reform mishaps is therefore a mistake. Both foreign and domestic sources are at fault for drawing attention to and resources towards, fruitless reform agendas, and steering the focus away from areas in urgent need of reform—such as law and order and infrastructure provision.

Explaining reform outcomes: the scope of success and failure

Reform is not always an easy exercise to undertake, let alone understand. Nonetheless, what can be comfortably concluded from the case in Papua New Guinea is that decisive political leadership at the national level is essential for reform to be successful. Furthermore, stakeholders need to work together to facilitate reform endeavours. As Joan Nelson (1990) notes, the fate of economic reform is intimately bound up in politics and determined by political choices.

> Why do some governments respond promptly to signs of economic difficulty, while others muddle indecisively for years? What factors enter the choice (explicit, or by default) to treat difficulties as short-term only, or to adopt a longer-term strategy of adjustment? Why have some countries experimented with heterodox approaches, while most have, however reluctantly, pursued neo-orthodox courses? Why have structural reforms failed to get off the ground in some countries and forged ahead in others? And why, when confronted with heated political protest, have some governments persisted, while others have modified or abandoned their courses? The answers to these questions are mainly *political*, not economic (Nelson 1990:5).

Successive PNG governments have persistently faltered on the key reform areas. Our analysis shows that there are five main reasons for this in Papua New Guinea.

Policy decision and implementation. Some of the reform initiatives that were adopted lacked appreciation of the socio-political reality of Papua New Guinea. The problem here lies with the design of law or policy. Designers need to consider the problem thoroughly in relation to the actual context (that is, the implementation environment) in order to understand upfront how implementation might take place.

The political landscape of Papua New Guinea is changing all the time. Thus, while a law made in good faith may have been appropriate for one moment in the country's history, it may not be relevant over time. Sometimes law drafters fail to anticipate how the political landscape will change, and hence laws are designed in ways that do not cater for the unfolding political climate. Reform endeavours are half-heartedly implemented or restricted when they become entangled with local interests. For example, the new provincial government system in 1995 was ill-conceived and hastily implemented, generating problems in subsequent years.

Also, reform initiatives in general have been designed among élites, with limited consultation with the public. Financial reforms, such as the floating of the kina, were implemented as a top-down enterprise. Furthermore, some reform initiatives have been earmarked for implementation and the public basically only consulted as a formality. The privatisation exercise is a good example of this.

What is also evident in Papua New Guinea is that very often advisors and drafters of laws fail to foresee the workability of some laws. To give an illustration, if the provincial governments under the old system found it difficult to acquire qualified manpower from the national government (that is, the idea that decentralisation would facilitate the spread of qualified manpower to provinces), what would make anyone think that qualified individuals would make themselves available for local-level government duties under the new system? That local-level governments have generally found it difficult to function properly is symptomatic of an area that should have been better researched.

Quality of reform decisions. The success or failure of reform programs largely depends on the type of commitment and the perseverance displayed by the people charged with their implementation. In Papua New Guinea's experience, the reform programs hinged on the commitment of four types of decision-maker categories.

- **Beneficiaries of the *status quo*.** Some individuals and groups with vested interests in the *status quo* resist reforms because any reform is likely to affect the flow of benefits from the existing situation. In some ways, this is evident in the long drawn-out battles among stakeholders in the forestry sector.
- **Survivalists and opportunists.** The execution and impact of reform programs have often been dictated by instincts of political survival and other opportunistic practices. Procrastination and indecisiveness are quite often used to ward off detrimental situations, just as reforms are done for political expediency.
- **Desperate recipients.** PNG counterparts sometimes are caught out where they have to negotiate from positions of weakness and helplessness. Hence reform programs are often accepted reluctantly. That haughtiness has marked the behaviour of some PNG governments towards some donor bodies is perhaps understandable.
- **Inept recipients.** Reform programs have been accepted even when PNG decision-makers and their advisors have had little or no necessary prior information, qualifications, or negotiation skills to protect and/or enhance Papua New Guinea's national interests. Therefore, they accept programs that are not suitable for their country.

These categories are the key but by no means exhaustive, possible decision-making scenarios faced in Papua New Guinea.

State capacity for reform. Ruis and van de Walle (2003) say that middle-income countries have the resources and drive to push political and economic reform programs when they are deemed necessary. Low-income countries find it difficult to reform since they are often preoccupied with other things that inhibit reform implementation. This points to a truncated linkage between program design on the one hand and program implementation on the other. Central to this problem is the weak capacity of low-income countries to sustain reforms.

> Because of the combination of low administrative capacity and the absence or weakness of interest groups, the decision-making process in low-income states tends to be closed and non-participatory. Public decision-making is exclusive to a small cadre of public elites, at least within the domestic arena...Relatively weak administrative capacity prevents low-income governments from fully carrying out their initial reform agenda...In the language of this literature, policy is characterised by extensive leakage, capture, unintended consequences and partial implementation (Ruis and van de Walle 2003:4).

Papua New Guinea clearly falls within this line of reasoning as it has been ranked as a low middle-income country (World Bank 2003).

The state, in the Weberian sense, has always struggled against the forces of society in Papua New Guinea (see Dinnen 2001). Although it is true that the state is a representation of society, it is not influenced solely by domestic society, as there are external influences as well. The reform exercises were in some way caught up in this tussle between the two sides as they competed for loyalty from those within the inner circles of reform. The heavy politicisation of the public service caused low morale among personnel over time. What has also caused a certain degree of state incapacity has been endemic corruption, and it cuts both ways. Opportunistic corrupt practices reduce the capacity of the state in terms of how it performs, but, from the other end, an incapacitated state machinery can be too weak to deter corruption (Ruis and van de Walle 2003:6).

Political will. Looking at this 13-year period, political will was also an issue that was appropriately linked to the prioritisation of much-needed reforms. Thus, if the first-past-the-post electoral system was producing 'unrepresentative' results in the 1980s, why did the government wait over 12 years to finally change the electoral system in 2001? It is for such reasons that the phrase 'lack of political will' is sometimes invoked. But what does the 'lack of political will' really mean?

'Lack of political will' has been liberally used, mainly to describe the perceived poor commitment of national leaders to reform programs. However, the view encapsulated by lack of political will can easily camouflage other possibilities, and it all comes down to perception. Here are some illustrations of how public perception can misconstrue the decision-making world of leaders. Lack of political will

- can mean misplaced political will, where decision-makers have the urge or drive to make changes, but for the wrong reasons. This is often the case where decisions are made for limited and/or private interests
- can mean that decision-makers are unable to choose from a range of options. Therefore, they either procrastinate or refuse outright to make decisions
- can also mean decision-makers simply do not know why they have to make decisions that are pending as per their responsibilities. Poor familiarity with responsibilities is a problem here
- can arise from a poor information network. It can also mean that leaders sometimes are stubborn, refusing to hear alternative views from advisors. Therefore, advisors end up telling them what they want to hear rather than objectively assessing choices
- can mean that decision-makers feel compelled to take heed or take note of advice or pressure from outside in order to be on common ground with these external actors. This is often the case when the country is in a desperate situation.

There is no one single way to make decision-makers show political will. Decision-makers have to have the heart to prioritise the interests of the country ahead of personal utilitarian interests, but the people should also hold their leaders accountable for decisions. Moreover, leaders need resources—including qualified staff—to assist them as they confront decision-making situations.

Timing of specific reform initiatives. Ruis and van de Walle (2003:5) note that reform often only happens when 'old policies have failed so miserably that politicians begin to see that keeping the status quo may be politically more dangerous than plunging into the unknown world of economic reform'. Some of the reform initiatives that have been adopted were suitable for Papua New Guinea but were introduced so late that where they would have been easy to fix early on they had deteriorated considerably by the time politicians turned attention to them. A good example was the introduction of the Integrity Law to curb political instability in Parliament. The introduction of the limited preferential voting system in 2001 is another case.

Observing the trends over the last 13 years of reform, it is imperative to say that the last six years have seen a deepening sense of urgency to do something substantive. While Bill Skate (1997–99) tried to institute drastic measures (at times in unconventional ways) to reduce reliance on the Bretton Woods institutions, and particularly on their contentious structural adjustment conditions, Sir Mekere Morauta indicated that a better strategy was to work with donor groups and accommodate differences whenever situations warrant it.

The present Somare government started off on a cautionary footing of reviving the reform undertakings agreed to by the previous government. Public sector reform is one area where Sir Michael Somare has allowed the reform process to remain unchanged. Privatisation is more sensitive and has advanced on a case-by-case basis.

If there was a propensity to undertake reforms in the late 1990s, what does that say about the leaders of the country at that time? Sir Mekere Morauta has been depicted as the prime minister who was more inclined to undertake reforms. Looking closely at what his predecessor Bill Skate tried to do, however, it seems that Skate was more determined to reduce the public service workforce than any other prime minister since 1990. He was determined, at times unapologetic, and adamant that what he was doing was absolutely necessary for the recovery of Papua New Guinea's economy.

What then were Skate and Morauta's general approaches to the need for reform? The initial point to acknowledge is that both prime ministers confronted similar difficulties. The main problem was that they did not have the funds to facilitate reforms. While Morauta borrowed from donor agencies and countries—'Friends of Papua New Guinea'—to fund various reform programs, however, Skate attempted internal adjustments in order to reduce reliance on foreign financial sources and make up for the shortfalls caused by the fallout with the Bretton Woods institutions.

That, in many ways, explains the success and failure of reform attempts under the successive governments. But more importantly, it shows that the success of reforms will depend on whether the aid-recipient country is on good terms with the donor community, particularly the World Bank and IMF.

Conclusions and implications for further research

Obviously more remains to be done if Papua New Guinea is to rid itself of the 'back-water' label that many have attempted to tag the country with. Whilst some reform measures have been successfully adopted, others have failed.

Some of the measures already adopted are those with the least benefit to the country's economy. Some of those left unimplemented are the ones with the greatest potential benefits; they remain undone because they are too difficult, politically and otherwise. Reforms in Papua New Guinea have thus mainly been undertaken along the principle of 'least resistance', where reform measures likely to evoke the least socio-political resistance are preferred by policymakers. Hence, it can be safely asserted that on the whole the current piecemeal approach to reform has not led to economic development within the expected period of time, and indeed may take some time to yield these results.

A number of key lessons can be gleaned from this study. While they are drawn mainly from Papua New Guinea, they are considered important for any domestic governments as well as donor organisations and other proponents of reform. The lessons follow.

The importance of the election cycle. The electoral cycle matters in Papua New Guinea. First, elections beget budget blowouts. Generally, this means one of two things. At one level, there is a propensity for incumbent governments to spend beyond planned limits to entice or lure voters. At another level, public funds are deliberately channeled in ways where they end up in the hands of MPs and political parties, and are then used for electoral purposes. Both types of spending often lead to budgetary blowouts. Second, due to the high attrition rate of MPs in Papua New Guinea, elected representatives would rather do what they can to be re-elected even if it means abandoning much-needed reform packages. This is also deemed logical since there is no guarantee that most MPs will be returned anyway. Moreover, it would be counterproductive for incumbents to press ahead with austere and controversial reform packages before elections since undesirable effects could be used against them by opponents and voters.

The dilemma of coalition governments. Coalition governments pose a dilemma for the prime minister when he is forced to choose between implementing reform programs and attending to the wishes of coalition members. This dilemma becomes more problematic when members of the coalition have a vested interest in maintaining the *status quo*.

Understanding reform objectives. Improper implementation of reforms has been partly due to the poor understanding of reform objectives, and particularly economic reform objectives.

Unrealistic expectations. A common thread across certain reform areas was the excessive optimism about expected outcomes. This was evident in wage deregulation, currency float, and the new provincial government system. Optimism unfulfilled led to widespread disillusionment, which dampened enthusiasm for reform both current and future.

Delayed outcomes. Where reforms have been undertaken in a crisis, their outcomes, even if positive, were not realised immediately. The lag leads to a fall in support for reforms.

Planning ahead. While it is true that reforms are often induced by crises, governments also introduce restructuring programs to prevent the country sliding into another debilitating state of chaos. In other words, reform programs can be planned in times of calm or after crises to prevent problems in the future.

Managing opposition to reforms. Many controversial reforms have not included strategies to deal with resistance from their probable losers. This problem was compounded when the public, and sometimes significant stakeholders, were not informed of the necessity of reforms and how objectives were to be achieved. By the same token, different reforms require appropriate strategies for informing people and stakeholders, which in turn greatly depend on the circumstances. For example, land registration required mass education. Whether the strategies were adopted at all is another matter.

External support. Reforms that drew on external resources inevitably required the support and approval of international donors. One significant development during the second half of the 1990s was massive mismanagement on the part of the Skate government, which brought the country perilously close to terminal paralysis. This situation understandably led to fallout between Prime Minister Skate and the Bretton Woods institutions. The fact that Skate brought in Pirouz Hamidian-Rad, contrary to the employment policies of the World Bank, meant that Skate had burnt bridges long before he was to work with the World Bank and International Monetary Fund. His successor, Sir Mekere Morauta, then brought together a consortium of 'Friends of Papua New Guinea' to rescue the country. To that extent, reform endeavours were supported as part of the corrective measures that were adopted by Sir Mekere.

Range of reforms. Finally, the study concludes with the proposition that important areas of reform were not considered. These include law and order, including the judicial system, infrastructure rehabilitation and development, and land reform. The study is of the view that these areas must be looked at carefully, taking into account all the competing views and values with a view to finding a way forward.

There is room for further research into the areas of reforms discussed here and those not covered, such as educational reforms, at a more case-specific level. Future research could also place Papua New Guinea's reform experience within the context of 'change management' and 'change leaders' in the implementing organisations. More research is necessary to test further the thesis advanced in this paper that the political economy of reforms is the key to reform results.

Notes

1 This article is an abridged version of a more extensive paper published by the Institute of National Affairs (Kavanamur and Okole 2005).

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