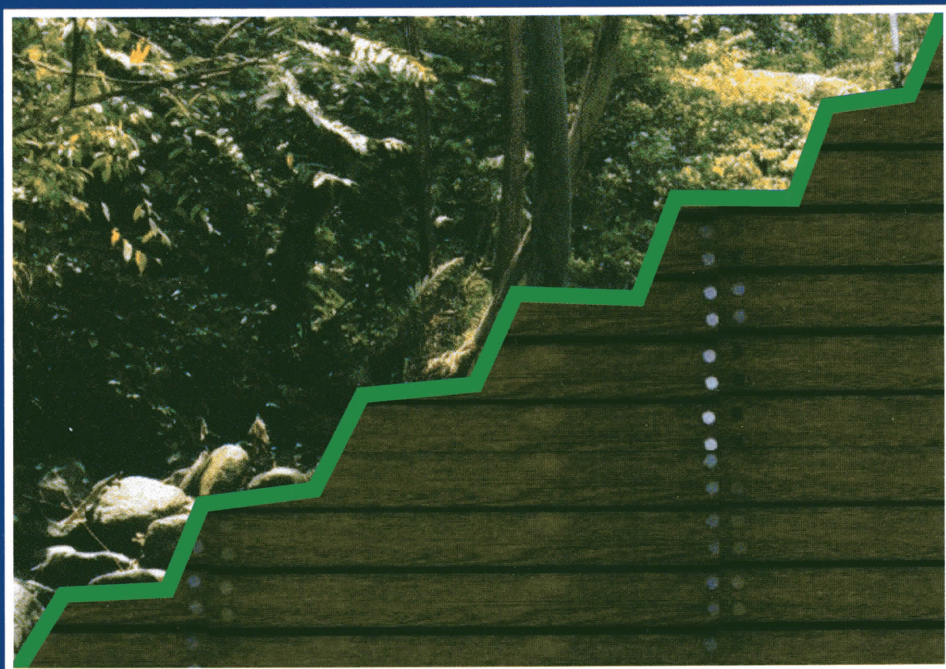


The Thin Green Line

World Bank Leverage and Forest Policy Reform in Papua New Guinea

Colin Filer

with Navroz K. Dubash and Kilyali Kalit



NRI MONOGRAPH 37

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Resource Management in Asia-Pacific Project

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The authors accept sole responsibility for the accuracy of the information presented in this study.

ABBREVIATIONS

AIDAB	Australian International Development Assistance Bureau (now AusAID)
AusAID	Australian Agency for International Development
CTF	Conservation Trust Fund
DEC	Department of Environment and Conservation
EPA	Environmental Protection Authority
ERP	Economic Recovery Program
EU	European Union
FCP	Forestry and Conservation Project
FHRDP	Forestry Human Resource Development Project
FIA	Forest Industries Association
FMA	Forest Management Agreement
FROA	Forest Resource Owners Association
GDP	gross domestic product
GEF	Global Environment Facility
GNP	gross national product
GoPNG	Government of PNG
GTZ	Gemeinschaft fuer Technische Zusammenarbeit
IMF	International Monetary Fund
MP	Member of Parliament
NCSEJ	National Coalition for Socio-Economic Justice
NEC	National Executive Council (Cabinet)
NFB	National Forest Board
NFAP	National Forestry Action Plan
NFCAP	National Forestry and Conservation Action Program
NFS	National Forest Service
NGO	non-governmental organisation
PDL	Project Development Levy
PNG	Papua New Guinea
PNGFA	PNG Forest Authority
SAP	Structural Adjustment Program
SEDP	Social and Economic Development Program
SRP	Structural Reform Program
TFAP	Tropical Forestry Action Plan
UNDP	United Nations Development Program
US	United States
WWF	Worldwide Fund for Nature/World Wildlife Fund

Note on currency conversion

At the end of 1988, one PNG kina was worth 1.21 US dollars. By the end of 1994, its value had fallen to 85 US cents; by the end of 1998, it had fallen to 47 US cents, and by the end of 1999, it had fallen to 37 US cents.

CHAPTER 1

FROM WASHINGTON TO PORT MORESBY

Papua New Guinea (PNG) is one of the few countries in which the World Bank has sought to apply the policy instrument sometimes known as 'environmental adjustment', which is defined as the intentional use of structural adjustment loan conditions to promote a process of environmental policy reform in the client country (Mugabe et al. 1997; Dubash and Seymour 1999). In PNG, as in other countries where the Bank has applied this instrument, the object of reform has been the management and conservation of natural tropical forests.

In August 1995, the World Bank approved an Economic Recovery Program (ERP) loan to the Government of PNG, as part of a broader program of structural adjustment which has proved to last much longer than was originally intended. The Bank produced an Implementation Completion Report on this loan in June 1997, on the eve of national elections which produced a change of government. The report observed that the program had been a success, because the Bank's 'intensive supervision' had finally prevailed over the borrower's lack of 'ownership'. But the new government proved to be even more recalcitrant than its predecessor. By February 1999, negotiations over the second phase of the structural adjustment program had ground to a standstill. The International Monetary Fund (IMF) found that a further 'deterioration in the quality of economic governance' was intimately bound up with a 'looming financial crisis', but for the time being, the Bank and the IMF appeared to have less control over national government policy than at any time during the previous decade.

Five of the conditions attached to the ERP loan were concerned with sustainable forest management. They gave rise to a series of confrontations between national politicians and Bank officials which almost short-circuited the whole program in the second half of 1996. The Implementation Completion Report declared that this particular bone of contention was 'the main reason for the almost year long delay in release of the second tranche' of the loan. Forest policy conditions did not play such a prominent part in stalling the negotiations over the second phase of the structural adjustment program. On the other hand, the new stalemate provided an opportunity for the PNG Government to untie three of the five environmental strings attached to the original loan. The sustainability of a broader national commitment to forest policy reform was thus called into question.

When the Bank came to negotiate the Policy Matrix for the Economic Recovery Program in 1995, it already had a vested interest in the reform of national forest policy, because it had organised a Tropical Forestry Action Plan (TFAP) review for the PNG Government in 1989, and then coordinated the partial implementation of a National Forestry and Conservation Action Program

from 1990 to 1994. The Bank's experience of dealing with the PNG Government and other national stakeholders during this earlier period, which included a failed attempt to implement a previous structural adjustment program, played a critical part in establishing the Bank's stake in the national forest policy process and its perception of the government's capacity to undertake reform in this or any other policy domain.

In the remaining sections of this introductory chapter, we shall briefly discuss the global and national contexts which have framed the Bank's dealings with the PNG Government in matters of forest policy. In Chapter 2, we review the development of the Bank's stake in PNG's forest policy process from 1989 to 1994, and then proceed, in Chapters 3 and 4, to a detailed account of the Bank's attempt to make positive use of adjustment loan conditions to influence this process in its dealings with the Chan government, from 1994 to 1997, and the Skate government, from 1997 to 1999. In Chapter 5, we consider the role of another 'green line' in the negotiation of a new Structural Reform Program during the first few months of the Morauta government, and we then conclude with some remarks on the lessons of this decade of experience for the Bank and the other stakeholders engaged in the reform of forest policy in PNG.

The global politics of structural adjustment and environmental policy

Forest policy has been a much bigger issue for the World Bank than would seem to be warranted by the actual volume of Bank lending within the forestry sector because the global Green movement has devoted so much attention to the negative impact of Bank-funded projects and programs (including the TFAP) on the health and welfare of tropical forests. This has prompted the Bank to engage in a succession of navel-gazing 'forest policy reviews' over the course of the past decade (World Bank 1991a, 1994, 1996), to shift its emphasis from project to program lending within the forestry sector, and to add a wide range of environmental issues to its latest agenda for the alleviation of global poverty. But this 'greening' of the Bank (Wade 1997) has certainly not gone far enough to satisfy the most ardent members of the so-called 'rainforest mafia' (Wilson 1994). For it still appears that the Bank's main concern in the substance of forest policy is to establish an 'efficient' and 'sustainable' regime for the management and taxation of industrial forestry concessions, while its critics have been more concerned with the way that forests are affected by policies, programs and projects outside the forestry sector (Rich 1994), or with the rights and roles of 'rainforest peoples' or 'indigenous communities' (Colchester 1994).

There is no obvious link between this contested terrain and the global politics of structural adjustment, where the World Bank has also suffered from a substantial 'credibility deficit'. The most trenchant criticisms of the Bank on this front have been concerned with the negative *social* impact of structural adjustment programs during the first decade of adjustment lending (Cornia et al. 1987), and hence with the health and welfare of the general population of developing countries, rather than the small minority who are the residents or guardians of tropical rainforests. The fact that structural adjustment programs are

not subject to the Bank's standard environmental assessment procedures has since raised additional questions about their impact on the *natural* environment in borrower countries (Cruz and Repetto 1992; Reed 1996), but there is only a handful of cases in which the Bank has sought to address such questions by including specific forest policy reforms in the list of conditions attached to its adjustment loans, and these cases of 'environmental adjustment' have so far received no systematic attention in the Bank's reviews of its own forest policies.¹

This new policy instrument has emerged as part of the Bank's wider process of engagement with questions of 'good governance' in developing countries. However, while the collapse of the Soviet bloc enlarged the scope of the reforms which could be seen as legitimate targets of adjustment lending (Nelson and Eglinton 1993), this has only served to amplify the questions previously raised about the effectiveness of loan conditionality as an instrument of policy reform. The so-called 'adjustment paradox' arises from the fact that loan conditions seem to imply a certain reluctance on the part of the borrower, but the borrower's compliance may be difficult to monitor, the termination of a loan normally has more costs than benefits to both sides, and the lender loses all control when the funds have finally been disbursed (Kahler 1989; Mosley et al. 1995; Collier et al. 1997; Killick 1998). The World Bank's longstanding search for the factors which determine the extent of 'borrower ownership' (Johnson and Wasty 1993; World Bank 1998a) has not as yet yielded any clear set of criteria by which the Bank might either decide how to distribute adjustment loans between potential recipients or raise the probability of borrowers meeting loan conditions which they do not like. And even where the Bank succeeds in persuading or helping one of its clients to undertake desirable reforms in this way, there still remains the possibility that 'good' policy outcomes could be outweighed by the contribution of adjustment loans to the survival of 'bad' governments (Wood and Lockwood 1999).

Papua New Guinea belongs to a small group of countries in which it is possible to make an evaluation of the effectiveness of adjustment loan conditionality as an instrument of forest policy reform, and an even smaller group in which the client government has so far been held to account for its actions in meeting such conditions. Forest policy conditions have been attached to three separate structural adjustment loans to the government of Cameroon – in 1988, 1994 and 1997 respectively. However, this reiteration of conditionality is testament to the World Bank's repeated failure to strengthen the government's hand in dealing decisively with a log export industry which continues to be dominated by French commercial interests, and which therefore receives a certain measure of support from the country's former colonial power (Brunner and Ekoko 2000). In the case of Cambodia, another former French colony, the Bank persuaded the IMF to include forest policy reform conditions in a 1994

¹ The series of studies commissioned by the World Resources Institute, including the PNG case study presented here, should be regarded as a specific NGO input to the Bank's latest forest policy review, which was initiated in 1998 and which still continues at the time of writing (see World Bank 2000).

adjustment loan whose fourth tranche was cancelled two years later when it became clear that there had been no reduction in the incidence of illegal logging. The Bank has again pushed its case for the reform of forest policy in the latest round of negotiations with the Cambodian Government, but it is too early to assess the impact of these efforts. In the case of Indonesia, the Bank only began to apply this policy instrument in 1998, four years after cancelling a series of forestry sector loans whose aims had been consistently thwarted by the timber barons and their political allies, and the government showed no serious interest in this sort of reform before Suharto's resignation from the presidency (Seymour and Kartodihardjo 2000). Thereafter, the Bank and the IMF had some immediate success in persuading the government to dismantle the infamous plywood cartels which had flourished under Suharto's patronage, and also made some effort to promote a wider national dialogue about the need for further reform, but a long road has yet to be travelled before the process of institutional change might begin to show positive results.

Given the rather limited evidence of success in other parts of the world, it could be argued that the Bank's use of adjustment loan conditions has achieved a more substantial range of forest policy reforms in PNG than it has in any other country. And the Bank's own assessment of this outcome might help to explain its attachment of a very similar set of conditions to an adjustment loan which has recently been negotiated with the government of the neighbouring Solomon Islands (Dubash and Filer 2000: 30-31). On the other hand, this might seem to be a rather strange conclusion, when one considers that PNG is often regarded as a classically 'weak' state with a classically serious crisis of 'governance' (May 1998; World Bank 1999b). For if it is suggested that the very weakness of this state facilitates a donor-driven process of forest policy reform (Filer 1998), then we must also wonder whether it allows a measure of 'borrower ownership' which can sustain that process in the longer term.

The national policy domain in Papua New Guinea

Approximately two thirds of PNG's total surface area is covered by natural forest, and more than 99 percent of this forested area is held by small groups of indigenous 'resource owners' under highly variable and largely undocumented systems of customary tenure. This fundamental feature of the social landscape shapes and constrains the whole pattern of stakeholder relationships in the domain of national forest policy. PNG's dominant form of landed property is certainly *not* an 'open access' regime – witness the damage and destruction continually wrought upon mountain-top repeater stations by landowners demanding extra compensation from the government's telecommunications agency. Any organisation with designs on the country's natural forest – whether it be a government agency, a logging company, or the management of a conservation project – must deal with an indeterminate number of customary title-holders who are as jealous of their property as they are normally suspicious of their neighbours (Ballard 1997). Although these characters may fit the World Bank's (1991b) definition of 'indigenous peoples', by virtue of their 'close

attachment to ancestral territories and to the natural resources in these areas', most of them are prepared, and even eager, to exchange these resources for some form of 'development' – provided that the price is right.

If we consider PNG as a nation of 'indigenous resource owners' (or resource rent collectors), then it seems to exhibit an extraordinary level of social and political fragmentation. There are literally thousands of traditional political communities or 'tribes', very few of which had more than 500 members in pre-colonial times, and most of which might best be described as confederations of smaller 'descent groups' which are the basic units of landed property. At any one time, we could say that roughly 100 of these communities (perhaps one percent of the total number) are lucky enough to have a member representing them in the National Parliament. Elections to this body are held at five-year intervals, and each successive election since Independence has witnessed an increase in the total number of candidates, a corresponding reduction in the proportion of votes required to win a seat, an increase in the number of sitting members who have lost their seats, and an increase in the level of fraud, violence and litigation associated with the result (see Saffu 1996). This 'democratic' form of tribal competition (or tribal warfare) has yielded a succession of coalition governments in which membership of a political party is far less important than the individual member's ability to reward a very small local constituency with the maximum possible share of government resources. In each of the quinquennial political cycles since 1977, the ruling coalition established after the election has been defeated on the floor of Parliament, when one or more of its component factions has joined the previous 'opposition' to form a new government. Ministerial portfolios are the main item of currency on this trading floor, and the coherence of 'government policy' is routinely sacrificed to the personal predilections of each new minister's own political patrons and clients.

While Papua New Guineans have certainly acquired many new forms of social identity which cut across the traditional 'tribal' foundations of their national society, the political system does not allow for these to be articulated as the 'public interest'. Instead, the state apparatus which still bears the rusting hallmarks of the old Australian colonial administration has been progressively consumed or 'colonised' by the Melanesian 'lifeworld' (Dinnen 1998: 59). The crux of the national policy process may therefore be compared to a 'tug-of-war between the politics of the Melanesian village and the divergent interests of assorted foreigners' (Filer 1998: 67). In the case of forest policy, these assorted foreigners belong to four main categories – overseas investors in the log export industry, the providers of bilateral and multilateral grant aid, international lending institutions (including the World Bank), and an assortment of international and Australian NGOs with an interest in forest conservation.

The harvesting and export of raw logs currently constitutes the main form of economic activity in PNG's forestry sector. Over the past decade, raw logs have accounted for roughly 97 percent of the value of all exports of 'forest products', and approximately 85 percent of the total log harvest has been destined for export (Filer 1998: 49). In 1994, PNG's raw log exports reached a peak of nearly three

million cubic metres, with a combined value of approximately K483 million. This represented just over 18 percent of domestic export values, from which the national government collected more than K131 million in log export taxes, representing more than 10 percent of all non-grant revenues. The Timber Permits currently allocated for selective logging of natural 'production forest' on customary land account for about 40 percent of the total forested area.² Over the past decade, one Malaysian logging company (Rimbunan Hijau) has become the dominant player in PNG's log export industry, to the point of controlling roughly half of the total export volume, and has diversified into other sectors of the national economy, including the publication of a national newspaper (*The National*). Malaysian logging companies have been key constituents in the 'Look North' policy which is sometimes espoused by government ministers as a way of asserting the need to reduce PNG's dependence on 'traditional' sources of investment in Australia and other Western countries. National forest policy has thus become a source of friction and competition between the Australian and Malaysian governments, and some of the country's leaders have been quite adept at manufacturing political capital from this antagonism (Filer 1996).

Over the past decade, grant aid has accounted for roughly 10 percent of the country's GNP, and three quarters of this amount has been derived from the Australian Government under a Treaty of Development Cooperation which is renegotiated at regular intervals. Successive treaties have reduced the total value of Australian aid but, more significantly, have transferred a growing proportion of it from general budget support to specific projects which are 'requested' by the PNG Government, but normally implemented by Australian contractors (Jarrett 1994). The preponderance of Australian tied aid in the total package of overseas grant aid is not as marked in the forestry and conservation sector as it is in some other sectors, such as education or 'law and order'. This is partly because forest management and conservation projects in PNG have proved especially attractive to a number of other bilateral and multilateral donor agencies, and their interest has been encouraged by the World Bank in its capacity as the supervisor of PNG's National Forestry and Conservation Action Program (NFCAP). The interest of the Japanese Government relates to the fact that Japanese industry consumes more than half of the logs exported from PNG, while the European Union and the Global Environment Facility (amongst others) have been sold on the country's biodiversity values (Sekhran and Miller 1994).

The volume of grant aid which has been made available to the PNG Government for projects in the forestry and conservation sector has acted as a disincentive for the government to borrow money for such purposes, whether from the World Bank or other international lending institutions. But the Bank's use of 'environmental adjustment' as a policy instrument has implied the support of all those lending institutions which contribute to the country's structural adjustment program. Aside from the IMF and the Asian Development Bank, the

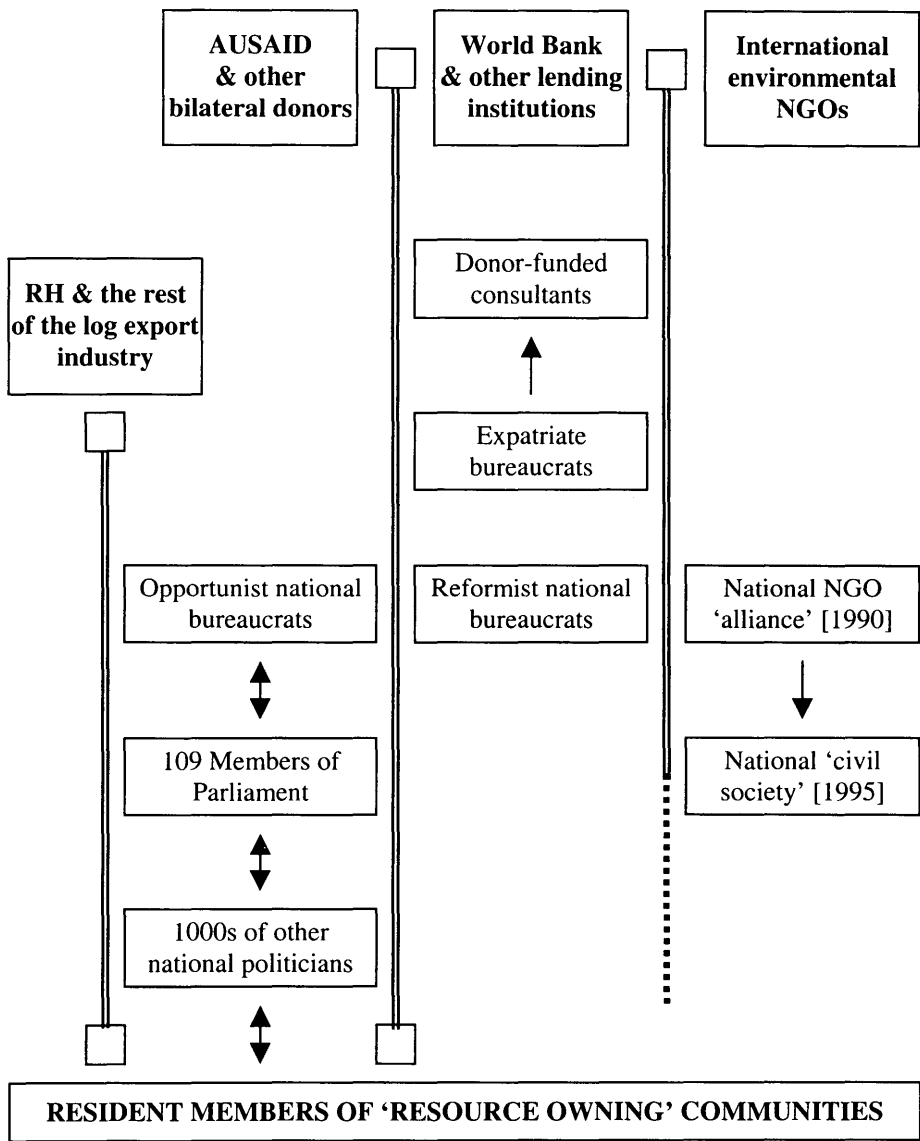
² Plantation forests cover less than 400 square kilometres, of which 60-70 percent is (theoretically) government land.

main contributors have once again been the Australian and Japanese governments, which thus play a double role in the national policy process. If anything, the size of the Australian tied aid program has added further weight to the Australian Government's support for the process of structural adjustment, and for the forest policy reform conditions embedded within it, rather than presenting an opportunity for the PNG Government to evade the conditions attached to its loans.

The same biodiversity values which have attracted grant aid funds to conservation projects in PNG have also aroused the interest and concern of several international NGOs. Some of these organisations (such as the WWF and Conservation International) have secured funding from their own sources to promote 'integrated conservation and development projects' in partnership with national NGOs, and their personnel have thus been actively involved in seeking to expand that part of the forested area (currently about 5 percent of the total) which is protected under PNG's conservation legislation. One international NGO (The Nature Conservancy) has recently sought to obtain a major timber concession in PNG in order to demonstrate the feasibility of a 'sustainable' large-scale forestry project. Others have sponsored or conducted research on various aspects of national forest policy (including the present study) with a view to advocating new policy directions for the national government, donor agencies or lending institutions. Australian NGOs have directed particular attention to the environmental impacts of Australia's tied aid program, and have also criticised their government's support for the structural adjustment programs assembled by the World Bank (Aid/Watch 1995).

All these foreign organisations face a common problem in framing their designs on the forests of PNG, and that is how to sell their prescriptions to the people 'on the ground' who actually own the vast bulk of this national forest estate. For donor agencies and lending institutions, the traditional method of crossing this gulf is the route of protocol which passes through the apparatus of the State. To follow this route is necessarily to recognise that 'the government' comprises several distinct groups of stakeholders who might be compared to the groups of passengers who get on and off a specific train of negotiation as it stops at a number of stations along the way. From our own observation of the way that forest policy has been negotiated over the past decade, we are inclined to distinguish six stations along this 'official' railway line (see Figure 1.1). The definition and arrangement of these stations reflect both the mutual relationship of the passengers who live nearby and the order in which they are normally contacted by a visiting delegation of donors or lenders, of which we might regard a World Bank supervision mission as a typical example.

Figure 1.1: A route map of stakeholder relationship's in PNG's forest policy process, 1989-99.



The first two stops are occupied by expatriates – either donor-funded consultants or contract officers in the public service – who are expected to entertain, advise or divert each trainload of visitors, thus providing an opportunity for their ‘national counterparts’ to avoid such unwelcome disruptions to their own work routines. There are some visitors who persist in travelling from office to office, or meeting to meeting, until they track down the more elusive national bureaucrats, but they still appreciate some prior knowledge of which ones can be ‘trusted’ to take a genuine and effective interest in whatever project, program or policy is under discussion. This question is recognised in the distinction which we draw between ‘reformist’ and ‘opportunist’ elements in the national bureaucracy.

The ‘reformist’ elements may be regarded as part of a wider coalition of ‘policy brokers’, both inside and outside the ranks of government, who have a personal interest in the achievement of policy reform and an institutional capacity to mobilise political support for it, thus providing the donors or lenders with a comforting cloak of ‘national ownership’ for their own endeavours. The ‘opportunists’ are those who simply follow the whims of their superiors and political masters in the hope of securing promotion within the bureaucracy or promoting their own nascent political careers. There is a lot of traffic between these two bureaucratic stations, precisely because the ‘policies’ of the politicians in Parliament and the ministers in government are such elusive and transient phenomena, and that in turn reflects their endless struggle for political survival in the face of competition from the hordes of other would-be politicians further down the line.

In matters of forest policy, the donors and lenders have grown increasingly impatient with the lack of progress made in their negotiation of this line through government, because the government’s capacity to influence events ‘out there’, in the forests which it does not own, seems to have evaporated as rapidly as its capacity to maintain the rural road network. The rising tide of ‘political interference’ has caused a steady exodus of policy brokers from the public service, and the loss of public faith in ‘government’ itself has served to isolate and demoralise the ‘bureaucratic communities’ which inhabit different sectoral agencies and levels of administration. While the state falls apart, an organisation like the World Bank is obliged to contemplate the continuing success of the logging companies in circumventing official channels of communication and dealing directly with the directors of landowner companies or other leading members of resource-owning communities in order to secure local political support for their own designs on the forest.

Over the course of the last decade, and especially the last five years, the Bank has evolved what might be called a ‘twin-track strategy’ for dealing with forest policy issues in PNG, by travelling the line which international NGOs have pioneered, trying to beat the loggers at their own game of leapfrogging the state (see Figure 1.1). While this divided approach has been typical of the ‘new Bank’s’ dealings across the globe, its journey down the ‘non-government’ line which leads towards the resource owners of PNG has acquired a peculiar

character from the Bank's initial role as the NFCAP ticket-collector, and its subsequent inclusion of forest policy conditions in the luggage of structural adjustment. Having helped to build a station for PNG's environmental NGOs in 1990, the Bank started work on a new station for 'civil society' in 1995, in the hope that this station might attract a new group of passengers who would advocate the combined benefits of structural adjustment and sustainable forest management to the 'grassroots'. But such is the politics of Melanesian village society that no foreign traveller can reach that destination without passing through a station which is crowded with national and local politicians, even if it bears a fancy name bestowed upon it by the Bank.

CHAPTER 2

THE WORLD BANK'S STAKE IN FOREST POLICY REFORM, 1989-94

When the Namaliu government came to power through a parliamentary vote of no-confidence in July 1988, it inherited a Commission of Inquiry into certain aspects of the forest industry which was headed by an Australian member of the PNG judiciary, Thomas ('Tos') Barnett. Barnett had already uncovered evidence of widespread corruption in which the new Deputy Prime Minister and former Minister for Forests, Ted Diro, was a prime suspect, but his preliminary findings had created an impetus for reform which the new government was unable to resist. While the new Forests Minister announced that steps would be taken to produce a new National Forest Policy and drafting instructions for a new *Forestry Act*, the government also sought international assistance under the TFAP, thus prompting the World Bank to organise an 'inter-agency review mission' which visited PNG in April and May 1989, while Barnett was still preparing his final report, and which produced its own draft report in October that year.

In April 1990, the Bank orchestrated a 'Round Table' meeting of national policy brokers and donor agency representatives which established PNG's National Forestry Action Plan (NFAP), later renamed the National Forestry and Conservation Action Program (NFCAP), as a bundle of grant-funded projects which were intended to support and complement the process of legal and institutional change which had been set in motion by Barnett's recommendations. Over the course of the next two years, the Bank played a double role in the process of forest policy reform, by helping to push through the gazettal of a new *Forestry Act* against the concerted opposition of some major logging companies and their political allies, and by making regular inputs to the design, coordination and marketing of the NFCAP.

The new *Forestry Act* was finally gazetted in June 1992, just before the national elections which resulted in a change of government. The new Prime Minister, Paias Wingti, had been responsible for instigating the Barnett Inquiry five years previously, and his lack of personal attachment to the log export industry was reflected in his appointment of a zealous policy reformer, Tim Neville, as the new Minister for Forests. Neville's 'crusade' against the logging giants created an impression of 'national ownership' which enabled the Bank to reduce its own profile in the forest policy process, and to focus more of its attention on the new government's failure to abide by the conditions of a structural adjustment loan which its predecessor had secured in 1990.

In August 1994, Wingti was dislodged from power by his own deputy, Julius Chan, and Neville was replaced by a new Forests Minister of a very different complexion. When the Chan government returned to the Bank for another structural adjustment loan, the Bank had already been a major stakeholder in PNG's forest policy domain for more than five years, and its subsequent use of relevant loan conditions can be seen as an effort to defend the reform process against a government which was apparently preparing to undermine it. In this chapter, we shall briefly document the development of the Bank's 'stake' in this process, and its relationship to the other stakeholders, from 1989 to 1994.

The TFAP's last fling

There is no evidence to suggest that members of the TFAP review team had any influence on the substance of the recommendations made in the final report of the Barnett Inquiry in July 1989 (see Box 2.1). However, their presence did encourage the judge to remark, in the conclusions to his report, that '[w]ith the help of agencies like the World Bank Papua New Guinea could set in place a system which could be a model of enlightened self perpetuating forestry bringing benefits for all concerned' (GoPNG 1989: 377). The Bank's own report was divided into six main sections, which considered:

- the general economic significance of forestry in PNG;
- the problem of defining and achieving 'sustainable forest management';
- the way to maximise national income from the forestry sector;
- the construction of a 'conservation and land use strategy';
- the strengthening of relevant government institutions; and
- the outline of an 'action program' designed to attract support from the 'donor community'.

There were only two major points on which the Bank's conclusions appeared to diverge from those of the learned judge. First, The Bank could not find any economic justification for measures to subsidise timber processors while penalising log exporters, because '[one] inefficient policy (excessively profitable log exports) combined with another inefficient practice (unprofitable processing) usually add up to two inefficiencies rather than one cancelling out the resource allocation decisions caused by the other' (World Bank 1989: 47). Second, the Bank also displayed a degree of scepticism about Barnett's assumption that local landowners were the innocent victims of exploitation by the logging companies and their political allies, and could therefore be counted on to support the efforts of policy reformers within the bureaucracy (ibid.: 61).

Box 2.1: Major recommendations of the Barnett Inquiry.

As well as recommending a long list of names for prosecution for various criminal and leadership offences, and a series of measures to clamp down on political corruption, the Commission recommended:

- the formulation of a national forestry policy;
- the enactment of revised forestry legislation;
- the establishment of a single forestry service under national control;
- full involvement of provincial government in provincial and national forestry planning;
- the inclusion of detailed requirements for sustained-yield forestry and environmental protection in every permit over land intended for future forestry use;
- provincial governments to have power to veto projects in their own province;
- outside recruitment of experts to lead planning initiatives, resource surveys, monitoring of operations, marketing control and effective on-the-job training for local officers;
- formal consultation arrangements between national, regional and provincial bodies to prepare and update national and provincial plans;
- the full involvement of landowners and provincial governments prior to allocation of permits in discussions of desired future land use and the conditions to be imposed on the developer by the timber permit.....;
- the National Forest Development Program [i.e. harvesting projections] to be revised drastically downwards;
- outside assistance to be sought to enable an accurate professional survey of all forest resources;
- no future allocation of any area unless resource survey information and social and environmental impact reports are available and a detailed project specific management plan for sustainable yield forestry (if appropriate) is in place;
- a review of all existing permits to introduce appropriate management conditions, revise harvesting rates, and reform logging practices;
- a new approach to improve the effectiveness of the monitoring of operations;
- a system of three-yearly review and assessment, on a company-by-company basis, to involve all aspects of operations, environmental damage, performance of permit conditions and marketing practices;
- radical changes to reduce transfer pricing, based on the Commission's very detailed investigations into this problem;
- far greater insistence on up to date and efficient local processing and the introduction of reprocessing techniques;
- a major increase in benefits for landowners and more effort to ensure that permits and licences protect their interests;
- the enforcement of conditions of permits which are designed to promote the interests of the local community.

Source: Barnett 1992: 104-107.

This might serve to explain why the recommended 'action program' placed so much emphasis on government regulation, and so little emphasis on community participation. One of the international NGO representatives in the review team, who was designated as the 'community forestry expert', produced a separate report on 'land use issues' which argued for greater recognition of the need to adapt the process of policy reform to the realities of customary resource ownership (Sargent 1989). The Bank's own involvement in PNG's TFAP review may have been partly based on a desire to prove that it was turning over a new leaf in response to the growing disillusionment of many environmentalists with the whole TFAP concept (Sargent 1990; Winterbottom 1990).

On the other hand, despite the talk of including a 'conservation and land use strategy' in the PNG plan, environmentalists in PNG were still dismayed by the Bank's continued emphasis on the economic value of an 'efficient' log export industry and its faith in the capacity of indigenous technocrats to pursue the elusive goal of 'sustainable forest management' (Brunton 1990). In order to accommodate its critics, the Bank was obliged to recognise the political value of national NGOs as 'the essential linkage' between the PNG Government and 'affected interest groups' (World Bank 1989: 55), and later to support the inclusion of their peak body, the National Alliance of NGOs, as a key stakeholder in the NFAP (Mayers and Peutalo 1995).

While Bank staff were compiling their report in Washington, the Prime Minister appointed a 'task force' to draft a new National Forest Policy in light of the recommendations made by the Barnett Inquiry and the TFAP review mission.¹ Members of this body also made a significant input to the identification of projects presented to the TFAP Round Table in April 1990 (see Table 2.1), shortly before the first draft of the policy document was approved by Cabinet. In particular, they claim some responsibility for persuading DEC staff that this was not simply a 'forestry' program, but one in which there ought to be a number of projects with explicit conservation objectives.

Since two of the major 'conservation' projects which the government presented at the Round Table had not been included in the Bank's list of 'Suggested Project Proposals' (World Bank 1990), it might be argued that these policy brokers were already some way ahead of the Bank in their determination to put a 'green face' on the national program. Despite the preponderance of expatriates on this committee, one could therefore say that the reform process was still subject to a fairly high degree of 'national ownership' at this juncture, and the Prime Minister's personal support was clearly an important factor in the equation.

¹ Aside from various staff of the Department of Forests, this body included an official from the Prime Minister's Department (Paul Barker), a lawyer (Graham Powell) who had been Counsel Assisting the Barnett Inquiry, another lawyer (Rod Taylor) who represented the provincial governments of the New Guinea Islands Region, a representative of the Forest Industries Association (Gordon McNeil), and the managing director of a small but respectable logging company (Jim Belford).

Table 2.1: Projects presented for approval by the TFAP Round Table, April 1990.

Project title	Objective(s)	Cost (K m)
Immediate Technical Support	To 'work with Government officials on a restructuring for forestry and on design and scheduling of donor agencies inputs' and to 'work with DEC officials ... on detailed design, scheduling of donor agency and government inputs'.	1.4
Revenue Study and Corporate Planning	To 'provide financial and corporate planning for the [new] Forest Authority and also identify the most appropriate method of determining royalty, export taxes, levies, other direct and indirect charges'.	0.2
Rapid Resource Appraisal	To 'provide a quick estimate of the state of PNG forest resources, for use in production planning under sustainable yield'.	1.6
Strengthening the State Purchasing Option	To make the SPO 'more independent of the GOPNG forestry administration' and place it 'in partnership with an international marketing firm for a fixed period'.	0.6
Forest Resource Assessment	To produce 'volume estimates, growth and yield models, and management scale data to allow design of regional and forest management plans'.	4.2
Forest Management and Monitoring Task Forces	To 'develop highly mobile task forces, centrally controlled within the new Forestry Service, to carry out essential planning and field tasks'.	6.5
Human Resource Development	To 'provide forestry academic expertise to the existing institutions in PNG', to 'assist with the redevelopment of curricula and courses where necessary', and to 'allow local academics to undertake further training'.	2.0
Forest Industry Development Studies	To 'select the most favourable sites for development of [three timber-processing] options, and analyse the economic and commercial feasibility of investment in them'.	0.5
Agroforestry	To evaluate and establish 'selected agroforestry systems' in areas of 'high population pressure, erosion, hazard and social need'.	0.9
Strengthening Environmental and Conservation Management	To 'provide technical assistance and training to DEC', to 'review and amend, if appropriate, environmental legislation as it refers to forestry and logging activities', and to develop 'policy guidelines ... to rationalise the environmental monitoring of forestry and logging operations'.	2.3

Table 2.1 (continued).

Strategy, Design and Implementation of Conservation and World Heritage Areas	To 'determine a representative system of biodiversity conservation areas', to 'investigate methods of landowner participation and compensation and assist in the establishment of mechanisms and guidelines for public information and landowner awareness'.	5.3
Rehabilitation and Development of National Parks and Wildlife Sanctuaries	To review existing parks and sanctuaries, produce appropriate management plans, and investigate the feasibility of establishing new parks and sanctuaries.	8.2
Support for Wau Ecology Institute and the National Alliance of NGOs	To support the WEI's ongoing environmental monitoring program, and to fund the establishment and administration of the NANGO office.	0.6
Landowner Awareness and Support	To 'set up a training and awareness information program where mobile teams will be trained to carry out extension activities with landowners and awareness information will be distributed to local community groups for discussion purposes'.	1.4

Source: GoPNG 1990.

The 1991 Forestry Act

The National Forest Policy (GoPNG 1991b) was tabled in Parliament as a White Paper in July 1990, and was then consigned to the hands of the government's legal draftsmen, who circulated a number of draft Forestry Bills to other stakeholders over the months which followed. Although the Forests Minister had produced his own drafting instructions in 1989 (World Bank 1989: 159-160), and the Bank also offered some suggestions for framework legislation, neither seems to have made much impact on the deliberations of the Prime Minister's Task Force, whose members drew most of their inspiration from Barnett's recommendations (compare Boxes 2.1 and 2.2). Bank staff did make detailed comments on the second draft in March 1991, which evinced a particular concern to minimise the risk of 'political interference' in the operation of the proposed Forest Authority, and these were reflected in the third draft which was tabled in Parliament in July that year. But the Act which was passed a week later turned out to contain a number of 'last-minute' amendments which had the opposite effect, and which signalled the start of a battle that has lasted ever since. For example, Section 19 ('Delegation') was amended to read: 'The Minister may, after consultation with the Board, by instrument delegate to any person all or any of the powers and functions of the Board under this Act (except this power of delegation).' As we shall see, the Bank was still trying to persuade the government to delete this section of the Act as recently as 1998.

Even those lawyers who had been members of the National Policy Task Force could see that the legislation was far from perfect, because the policy itself was something of a 'dog's breakfast' (see Everts 1996, cited in Filer 1998: 169-

170). But these faults do not suffice to explain the concerted efforts of the Forests Minister, Jack Genia, and his Departmental Secretary, Michael Komtagarea, to delay gazettal of the Act for almost twelve months. The essence of their argument, at least in public, was that the government had yet to approve a structure and budget for the new Forest Authority, but they were also under pressure from an 'unholy alliance' of log exporters and landowner company directors who saw the Act as a direct assault on their mutual interests.

Two features of the legislation were guaranteed to produce this outcome. First, the repeal of the *Forestry (Private Dealings) Act* removed the avenue by which the directors of landowner companies had been able to negotiate their own Logging and Marketing Agreements with logging companies, subject only to the personal assent of the Forests Minister. This Act was the brainchild of Julius Chan, and had been used to expedite the 'development' of timber resources in his own province, New Ireland, during the 1970s. During Karl Stack's occupation of the Forests Ministry from 1988 to 1991,² the bulk of the timber resources in the neighbouring province, West New Britain, had been allocated to 'Local Forest Areas' under the same Act, with the result that this province now accounted for more than half of the country's total log exports. The Barnett Inquiry had found that logging operators were consistently manipulating these 'private dealings' for their own economic benefit, but landowner company directors preferred to take a stand on the rights of 'resource owners' to dispose of their own resources as they saw fit, without the heavy-handed interference of forestry officials (see Simpson 1997).

The second feature was one which provoked the industry directly. The logging companies might have been persuaded to accept the need for greater government regulation of the resource allocation process if the new Act had held some promise that fresh resources would in fact be allocated to them within a reasonable period of time. But Section 54 of the Act, which had not been present in the first two drafts of the Bill, bluntly declared that '[f]orest resources shall only be developed in accordance with the National Plan', and anyone reading Sections 47-49 could see that a National Forest Plan would not be put in place for several years (see Box 2.2).

The loggers identified the World Bank as the enemy which had thus contrived to make sure that the legislation would effectively constrain the further expansion of their activities. Rimbunan Hijau was especially affronted by this move (as might have been the Bank's intention), because this company had only recently embarked on its quest to become the dominant player in PNG's log export industry. The policy reformers grouped around the Forestry Transitional Management Council, which was established at the end of 1991, were convinced that Rimbunan Hijau was the real force behind the Minister's determination to delay gazettal of the Act.

² Jack Genia replaced Karl Stack as Forests Minister in April 1991.

Box 2.2: Key provisions of the *Forestry Act*, 1991.

The new *Forestry Act* replaced three previous pieces of legislation – the *Forestry (Private Dealings) Act* of 1971, the *Forestry Act* of 1973, and the *Forest Industries Council Act* of 1979.

The Act established a new statutory corporation, the 'Papua New Guinea Forest Authority' (PNGFA) which was to take over the functions previously exercised by the Department of Forests, the Forest Industries Council, and the nineteen provincial forestry divisions. The PNGFA was to comprise a National Forest Board (NFB), nineteen Provincial Forest Management Committees, and an integrated National Forest Service (NFS). The NFB would be responsible to: advise the Minister on matters of policy and legislation; prepare and review the National Forest Plan; direct and supervise the NFS; negotiate Forest Management Agreements with timber operators; control and regulate the export of forest products; and oversee the administration and enforcement of the Act itself.

Under Section 10 of the Act, the NFB was to comprise: the Director-General of the PNGFA (as head of the NFS); the heads of the three national government departments responsible for 'finance and planning matters', 'environmental protection matters', and 'trade and industrial development matters', or their nominees; a member 'with appropriate experience in commerce and finance, preferably with respect to forestry, nominated by the Minister'; the President of the FIA, or his nominee; a member appointed by the Minister from a list submitted by the National Alliance of NGOs; and four provincial government representatives appointed by the Minister from lists submitted by each of the four regional Premiers' Councils. A similar balance of interests was prescribed for membership of the provincial committees.

Sections 47 and 48 required the PNGFA to produce and present to Parliament a National Forest Plan based on a certified National Forest Inventory, and comprising: a set of National Forestry Development Guidelines; a National Forest Development Program; and an annual statement of 'allowable cut' in each province for the succeeding year. Section 49 required each provincial government to produce and present to the Minister its own Provincial Forest Plan in conformity with the National Forestry Development Guidelines, and comprising a set of Provincial Forestry Development Guidelines and a rolling five-year Provincial Forest Development Program.

Sections 54-60 prescribed a new process of 'resource acquisition' in which the PNGFA would henceforth enter into Forest Management Agreements (FMAs) with customary owners whose title was either vested in land groups incorporated under the *Land Groups Incorporation Act* or was registered under a law providing for the registration of title to customary land. Where this was 'impractical', allowance was made for an FMA to be executed by the 'authorised agents' of the owners, provided that 75 percent of the adult resident members of the landowning groups had given their written consent. Each FMA was to contain a map showing the boundaries of the area which it covered, and to specify the volume of merchantable timber which it contained, the benefits which the owners would receive in exchange for the harvest rights, and the period required for 'proper forest management measures to be carried out to completion'.

Box 2.2 (continued).

Sections 62-77 prescribed a new process of 'resource allocation', by which the PNGFA could then allocate the rights acquired under an FMA to a developer. This process involved ten separate stages, beginning with the conduct of a 'development options study' by officers of the NFS, and ending with the issue of a Timber Permit setting out the various conditions under which the development would be allowed to proceed, including the production of a project statement, a five-year working plan and an annual logging plan, and payment of a performance bond. Sections 78-86 specified another set of procedures by which an existing Timber Permit might be extended, renewed, transferred, amended, surrendered or suspended, but all existing concessions were to be 'saved' as Timber Permits under the new Act. Sections 87-89 allowed the NFB to short-circuit some of these complex procedures by granting a Timber Authority (rather than a Timber Permit) if the amount of timber to be harvested from a project area did not exceed 5,000 cubic metres per annum and was to be processed locally, or if the area had already been designated as 'salvage forest' in the National Forest Plan.

Under Sections 115-118, the PNGFA could exercise a 'State Purchase Option', which meant that it could 'purchase compulsorily at the market price from the holder of the timber permit up to 25% of the amount of logs which the holder of the timber permit is permitted to export in any one year'. Sections 119-121 required the establishment of a new 'forest revenue system', but no further details were provided in the legislation.

Source: GoPNG 1991a.

In April 1992, Minister Genia received two letters – one from the Prime Minister and one from the World Bank's regional Country Director, Marianne Haug.³ The text of both letters was 'leaked' to a national newspaper two months later (Filer 1998: 149). The Prime Minister complained that:

The postponement of gazettal of this major piece of our government's legislation to the end of our current term of office is regrettable, particularly in the light of the considerable work which has gone into the preparation for the April 'D' Day which you had publicly pronounced; it may also have unfortunate implications with the donor agencies, which were well aware of the April deadline..... We cannot afford further negative publicity over an initiative which should be seen as a major achievement for our government..... We must therefore clearly demonstrate that this is a once off postponement, and does not detract from our commitment to effectively implement the new policy and legislation (*Post-Courier*, 2 June 1992).

The Bank took a very similar line:

The Bank and other donors regard the new legislation and Forest Authority as underpinning all other components of the NFCAP. Continued delay in promulgating legislation and instituting administrative reform will therefore be interpreted by the donor community as an indication of waning commitment of government to the reform process (*Post-Courier*, 2 June 1992).

³ Under the 'old' Bank structure, Indonesia, PNG and the Pacific Islands were grouped under a single regional Country Director within the East Asia and Pacific Vice-Presidency.

Our sources suggest that the Bank's intervention was prompted by reformist elements within the bureaucracy, who were not only responsible for drafting the Prime Minister's letter, but also for the subsequent leakage. But the Bank's willingness to assume this role was perfectly consistent with its own agenda.

While bureaucrats were leaking letters to the press, the logging companies were sponsoring a meeting of landowner company directors from six provinces which led to the formation of the PNG Forest Resource Owners Association (FROA). These gentlemen made loud complaints about the 'bottleneck' embodied in the Act and the lack of 'landowner representation' on the National Forest Board. Despite their pleas, the Minister allowed the Act to be gazetted at the end of June, three days after publishing a newspaper advertisement in which he recounted the success of his Department in implementing the recommendations of the Barnett Inquiry, and one day after he had allocated seventeen new timber permits, most of which were gratefully acquired by Rimbunan Hijau or its subsidiaries (Henderson 1996). As a result of his last-minute generosity, the 'maximum allowable cut' under existing timber concessions rose to about nine million cubic metres per annum, which was three times the level which the World Bank had previously estimated to be the limit of sustainability.

Supervision and coordination of the NFAP

As clearly shown in the Country Director's letter to Minister Genia, the Bank's engagement in the drafting and gazettal of the *Forestry Act* was only one aspect of its broader role in the supervision and coordination of the NFAP. In other words, the Bank sustained its presence in the national forest policy process by orchestrating negotiations between relevant government agencies and the various donor organisations which had shown some interest in funding specific NFAP projects. The annual meetings of the PNG Consultative Group from 1990 to 1992 provided a useful focus for this activity. While the Bank's success in 'selling' the program meant that most of the proposed projects were eventually funded by grant aid from bilateral or multilateral donors, the Australian and Japanese governments, which were two of the biggest contributors, both elected to place their initial contributions in trust funds administered by the Bank. The Japanese contribution (about US\$3 million) was used to finance the Forest Management and Planning Project, while the AIDAB Trust Fund (about \$5 million) was applied to a variety of institutional strengthening activities during the early stages of the program, and was later used to support its NGO component.

Bank staff played an active role in the establishment of a NFAP Steering Committee towards the end of 1990, and the chairman of this body, Kilyali Kalit, was subsequently paid out of the AIDAB Trust Fund as a full-time program coordinator within the Department of Finance and Planning. The four donor-funded consultants engaged to implement the NFAP Technical Support Project functioned as the secretariat to the Steering Committee, and thus became part of the 'focal point' for the Bank's dealings with the bureaucracy. In April 1991, on

the anniversary of the Round Table, the Bank despatched a Supervision Mission to monitor the work of the Technical Support Team and to advise the Steering Committee on the general progress of the program. Apart from proposing a new 'project matrix' to reflect the various objectives spelt out in the National Forest Policy (Filer 1998: 106-107), the mission was able to advertise the availability of additional funding for what it now called the 'Environment and Conservation Program' through the Biodiversity Conservation 'window' which was about to be opened by the Global Environment Facility. This prospect encouraged the Steering Committee to rename the National Forestry Action Plan as the National Forestry and Conservation Action Program in July 1991. The Bank's endorsement of this change of emphasis entailed a growing recognition that the program's conservation component could not be confined within the provisions of the National Forest Policy, let alone the new *Forestry Act*, and may also have been motivated by the Bank's admission that its own forest policy needed to change direction (World Bank 1991a).

While the Technical Support Team and a number of other consultants engaged through the AIDAB Trust Fund provided crucial support for the bureaucratic reformers on the Forestry Transitional Management Council in the first half of 1992, the uneven rate of implementation of different NFCAP projects was already causing problems by that stage. An internal evaluation of the Technical Support Project found that the program as a whole had begun to overload the capacities of central government agencies, without as yet showing much sign of creating the relationships with other national stakeholders – provincial governments, NGOs and local communities – which were essential for its success (Familton 1992: 2). Although the Bank's new 'project matrix' had elevated the original Landowner Awareness and Support Project to the status of a 'program' called 'Promoting Landowner Participation', no activities had yet been initiated under this heading. This was partly because the German aid agency GTZ, which had agreed to fund the original project, had got lost in its own planning procedures, but it was also due to a burgeoning dispute between government agencies and local NGOs about the role which the latter should be playing in the NFCAP as a whole. And the NGOs were growing steadily more impatient with the Bank's apparent failure to address this problem. Despite the presence of an NGO Specialist in the Technical Support Team, who presented a proposal for the design and funding of the NGO component to the Supervision Mission in April 1991 (Peutalo 1991), the Bank could not find a way to utilise the AIDAB Trust Fund for this purpose until August 1993. Whatever the explanation for this delay, it provided welcome ammunition to those indigenous clients of the log export industry who wanted to portray the NFCAP as a 'grave train' for the international consulting industry.

These points were reiterated in an independent review of the NFCAP which was commissioned at the end of 1994. The authors observed that the task of persuading different government agencies and NGOs to coordinate their own approaches to the pursuit of sustainable forest management had detracted from the task of persuading other stakeholders to join this pursuit. They felt that the Steering Committee had failed to give sufficient strategic direction to the

program, not only because some of its members had carried insufficient weight within their own organisations, but also because it had not included representatives of the resource owners, the donors, or the forest industry. Despite some remarks about the continued exploitation and manipulation of resource owners by logging companies, they suggested the need for a new 'tripartite partnership' with both of these other parties, and pointed out that the 'much lamented concentration of ownership should in practice facilitate such partnership' (Taylor et al. 1994: 16). The Bank's concern to secure the central coordination of NGO inputs to the NFCAP was seen to have detracted from the capacity of individual NGOs to pursue the process of engagement with landowning communities, and perhaps made it easier for landowner companies to challenge NGO claims to represent the interests of resource owners as a whole.

The White Crusader and his Guidelines

The Bank got some relief from its public relations problem during the period of the Wingti government, from July 1992 to August 1994, because the Forests Ministry was allocated to a wealthy white businessman, Tim Neville, who was more than willing to do battle with the Malaysian dragons who monopolised the logging business. During the period of his crusade, the flow of new timber permits dried up completely, log shipments were delayed while the Minister personally checked their credentials, and rumours of conspiracies to murder him provided an extra touch of heroism in an Australian television program devoted to his exploits. The crusade began in earnest once the National Forest Board had held its first meeting in December 1992 and Jean Kekedo had been appointed as the new Managing Director.

Neville promptly amended the *Forestry Act* in order to reduce the size of the Board and thus expedite establishment of the National Forest Service (NFS) and the Provincial Forest Management Committees (GoPNG 1993a).⁴ He then confronted the logging companies with a draft of the National Forestry Development Guidelines, and gave them a mere seven days in which to comment on this document before he sought Cabinet approval of it. This provoked the Forest Industries Association (FIA) to wage a lengthy public campaign against several of the more radical measures which were being proposed. Although the Minister made some concessions to the industry in the final draft of the Guidelines, they still included an undertaking 'to effect further successive reductions in the volume of logs which may be exported nationally so far as is necessary to achieve development of a domestic based processing industry', and implied that raw log exports would be phased out completely over a period of five years (GoPNG 1993b: 16-17).

⁴ The amendments removed the Minister's own nominee, one of the departmental heads, and three of the provincial government representatives from the Board. They also replaced the position of 'Director-General' with two new positions: the 'Managing Director' would chair the NFB, while a 'General Manager' would be the executive head of the NFS.

The loggers responded to this threat by helping their friends in the FROA to engage an Australian lawyer to draft some fresh amendments to the *Forestry Act* and to persuade a national MP, Daniel Tulapi, to table these in Parliament as a Private Member's Bill. Under these proposed amendments:

- the National Forest Board would include three FROA representatives, three FIA representatives, and three government representatives (including the Managing Director), but no NGO representative;
- all sections of the existing Act dealing with resource acquisition and resource allocation would be repealed, thus giving the Board a free hand in the issue of new timber permits; and
- all sections relating to the registration of forest industry participants, the exercise of the state purchasing option, the imposition of penalties on logging companies which failed to comply with permit conditions, the powers to review existing projects, the prohibitions against export of selected species, and the introduction of a new revenue system would also be repealed.

It was claimed that these changes would reassert the constitutional rights of resource owners to dispose of their own private property, reducing the role of government officials to that of providing advice to the buyers and sellers of timber, and almost totally eliminating the powers of the Minister (*Post-Courier*, 20 July 1993). To underline the force of this argument, the lawyer who drafted the amendments was asked to draft a second bill which would guarantee the 'fairness' of contracts between resource owners and developers. While national NGOs rallied behind the Minister to help him defeat the first bill, the second one was approved by Parliament as the *Fairness of Transactions Act*. However, this Act has never been gazetted, and some national NGOs have since adopted its gazettal as part of their own program of policy reform.

The NGO campaign against Tulapi's Bill may have helped to create an impression of 'national ownership' which enabled the Bank to reduce its own public profile in the policy process, but Bank staff were still obliged to deal with dissent in the ranks of the reformers which created a rather different impression in the final months of Neville's ministry. The greater part of this problem arose from the engagement of a Canadian consultant, Conrad Smith, to conduct the 'Forest Industry Development Studies' prescribed under the NFCAP (see Table 2.1), and his subsequent appointment as the first General Manager of the NFS in September 1993. Smith persuaded Neville to share his passion for measures that would promote a significant expansion of the domestic timber processing industry, and the most contentious features of Neville's Guidelines clearly reflected this bias. This was a source of disappointment and annoyance to other bureaucrats and consultants who had hoped that the Guidelines would primarily serve to remove the ambiguities and inconsistencies in the *Forestry Act*, and thus provide a better guide for dealings between the NFS, developers and resource owners.⁵

⁵ For example, where Section 62 of the Act had required a 'development options study' to be

Smith was able to follow his own arguments to their logical conclusion, by persuading the Minister of the need to enlarge the size of logging concessions, so that each logging company with a proven commitment to downstream processing could be granted sole access to a resource which would be large enough to meet its long-term need for raw materials. When he announced his grand scheme to divide the whole country into twenty-five 'Timber Supply Areas', in March 1994, local NGOs took sides with the FROA and several national politicians who had not previously backed Tulapi's Bill to oppose what they perceived as an attempt to challenge the hallowed right of all native Melanesians to decide what should or should not happen on their customary land.⁶ This unlikely partnership also had the backing of many national officers in the NFS, who had grown increasingly resentful of what they perceived as the Minister's reliance on advice from 'fly-by-night consultants', and who had formed an Association of Foresters to give occasional public voice to their grievances (see Filer 1998: 157).

Needless to say, Smith's pursuit of the processing option had little or no support from Washington, where Bank staff still stuck to the guns which they had used to shoot it down in 1989. But it also added a further layer of complexity to the arguments which delayed the introduction of the new forest revenue system promised under Section 119 of the *Forestry Act*. An Australian consultant, Clarrie Higham, had completed a 'Forest Revenue and Financial Study' at the end of 1991 (Shedden Agribusiness 1991), in which he recommended that fixed rates of export tax on different tree species should be replaced by a combination of variable stumpage charges and export taxes which would encourage downstream processing by subjecting processors to the former, but not the latter, charge. He also proposed that all of the government's tax receipts should be credited to a Forest Revenue Stabilisation Fund, part of which would be used to cover the costs of the PNGFA in regulating the industry, while the rest would be made available to Local Area Development Funds in each concession area to supplement the royalty payments made to the landowners whose trees were being harvested.

Since the new system was primarily intended to minimise the logger's share of the resource rent, it naturally attracted fierce opposition from the industry, but their cause was assisted by a lengthy wrangle between:

- the Department of Finance and Planning and the Internal Revenue Commission, which wanted to maximise the share which accrued to consolidated revenue, and thus opposed the Forest Revenue Stabilisation Fund, while seeking to impose an income tax on cash benefits to landowners;

undertaken as part of the 'resource allocation' process, *after* landowners had signed a Forest Management Agreement with the PNGFA (see Box 1), the Guidelines recognised that such a study would only make sense if it were undertaken beforehand, as part of the 'resource acquisition' process (GoPNG 1993b: 5).

⁶ One NGO pamphlet translated the 'TSA concept' as 'Total Silvicultural Annihilation', because it 'makes no allowance for other forest uses apart from timber, excludes landowners, and threatens to greatly increase the rate of forest exploitation' (*Post-Courier*, 5 July 1994).

- the World Bank, which opposed financial subsidies to the processing sector, but supported the concept of Local Area Development Funds because it did not trust the logging companies or the landowners themselves to distribute 'landowner benefits' in a suitably sustainable manner; and
- the staff and consultants in the PNGFA, most of whom were concerned with the overriding need to persuade some sections of the industry and some groups of landowners to accept the application of a new system to projects covered by existing agreements.

Smith's desire to favour the processing industry reduced the PNGFA's capacity to present a united front to other stakeholders, because it opened a second line of debate about the proportions in which the resource rent should be divided between stumpage charges and export taxes. The Guidelines featured a compromise which seemed to satisfy none of the contending parties, so Cabinet deferred its final approval of the new system pending further evaluation of its merits by a ministerial committee which failed to hold a single meeting throughout 1994. While the Department of Finance and Planning adopted the simple expedient of raising the rates of export tax levied under the existing revenue system in the budget of November 1993 and the 'mini-budget' of March 1994, it has been estimated (Duncan 1994) that the log export industry still managed to secure a 'windfall profit' of about K225 million during 1993 and 1994, which was more than the sum of about K200 million which the government actually collected in log export taxes over the same period.

CHAPTER 3

ADJUSTMENT AND REFORM UNDER THE CHAN GOVERNMENT

By the time that Paia Wingti was dislodged from power by his erstwhile deputy, Julius Chan, at the end of August 1994, there was a major squeeze on the government's external reserves which compelled an immediate and substantial devaluation of the kina. This was followed by a sudden cash flow crisis which virtually paralysed many sections of the state apparatus. Within three months of its formation, the Chan government had already made an appeal for support from the World Bank and the IMF. Together they devised an Economic Recovery Program (ERP), which was understood to constitute the first phase of a longer-term process of structural adjustment, and whose main features were incorporated into the government's 1995 Budget. Despite strong opposition to various aspects of this program, both from national politicians and from various sections of 'civil society', the formal agreements were signed in July 1995, a Structural Adjustment Program Implementation Secretariat was established in the national Department of Finance, the Bank started to release its first tranche loan of US\$25 million, and other aid agencies followed suit.

However, in February 1996, the government's failure to implement some of the loan conditions provoked a serious dispute with the first Supervision Mission, and the rest of the year was taken up with a series of public confrontations between the Bank and the government which almost caused the Bank to wash its hands of the whole program, and which delayed release of the second tranche loan until the start of the following year. Despite the wide variety of issues which had been raised in public debate during the negotiation of the ERP in 1995, the arguments in 1996 were more narrowly concentrated on the five first tranche loan conditions which were concerned with sustainable forest management. The Bank's Implementation Completion Report, which was produced in the middle of 1997, on the eve of the national elections which also saw the end of the Chan government, remarked that this particular bone of contention had been 'the main reason for the almost year long delay in release of the second tranche' (World Bank 1997a: 6). In this chapter, we shall try to explain how and why it was that national forest policy became – or came to be seen as – the ultimate test of the government's 'political will', and the main plank in the Bank's program of reform.

The Economic Recovery Program

The ERP was conceived as a series of short-term measures designed 'to address only key macroeconomic and structural issues whose implementation is expected to stabilize the economy, begin the process of sustainable private-sector-led

growth, while improving the delivery of public services and strengthen[ing] natural resource management, particularly forestry' (World Bank 1995: 6). The Policy Matrix to which the PNG Government agreed in principle, in February 1995, contained approximately fifty loan conditions, though many of the second tranche conditions simply involved the maintenance of reforms to be enacted before the first tranche could be released. The conditions were arranged in five main groups, one of which had the notional objective of promoting 'long-term sustainable private sector-led growth in income and employment' (see Box 3.1). All five of the first tranche conditions listed under this heading were concerned with forest policy (see Box 3.2). And just in case the government had second thoughts, four of these conditions were also attached to the second tranche.

Box 3.1: Omnibus conditions and objectives of the Economic Recovery Program.

Macroeconomic Stabilization: Monetary, Exchange Rate and Financial Sector Policies

- To restore and maintain a sound macroeconomic environment by sharply lowering the fiscal deficit and adjusting relative prices to enhance PNG's international competitiveness.

Fiscal Management

- To enhance fiscal discipline and efficiency by setting clear budgetary rules, sharply reducing budget deficit, and generating public savings, as well as faster drawdown of donor funds, to invest in social and physical infrastructure, and restore prudent levels of public debt.

Private Sector Promotion and Supply Response

- To create a conducive environment for the development of the private sector for promotion of growth and employment generation.
- To promote domestic and foreign trade and investment by promoting competition and removing entry barriers and other impediments to free and open economic participation.

Promoting Sustainable Development

- To promote long-term sustainable private sector-led growth in income and employment.

Public Service Delivery

- To substantially improve public service delivery through restructuring public expenditures to focus on provision of basic services, including education and health, agricultural support services, and infrastructure.
- To ensure more equitable allocations of public funds across regions, by recognizing the differences in per capita incomes and increasing the level of transfers to the relatively poor provinces, thereby promoting more even development.

Source: World Bank 1995.

Box 3.2: Sustainable development conditions in the ERP Policy Matrix.

18. Refrain from introducing amendments to the Forestry Act of 1991 which will in any way reduce or qualify the present allocation of powers and responsibilities to the Board, or the Authority, for the approval, issue or suspension, or modification, of timber licenses, permits or authorities.
19. Ensure that areas of natural forests which are used for log production are managed on a sustainable basis by: (i) for new projects, limiting the annual harvest to one thirty-fifth of the net loggable area within each project; (ii) for existing operating projects, disallowing unused permitted cuts to be brought forward, not extending or expanding existing projects unless they conform to the same sustainability requirements as placed on new projects, inclusive of the extension or expansion; and using negotiation, project review, and best endeavours to limit the aggregate annual harvest from currently existing operating concessions and extensions to 1994 levels. For projects with exceptional circumstances in 1994 to allow minimum cuts as specified in the permits; and (iii) enforcing environmental protection standards set by the Department of Environment and Conservation.
20. Introduce in the context of the 1996 budget, but with an effectiveness date of no later than January 1, 1996, a logging revenue system applied to exported round logs and comprising marginal tax rates for government revenue, inclusive of a forest levy, and royalties to be distributed to landowners. The marginal tax rates are cumulative and apply to each increment of f.o.b. log export prices as follows: 15 percent of value up to K90 per cubic meter (m³); plus 30 percent of K91-110/m³; plus 50 percent of K111-130/m³; plus 55 percent of K131-150/m³; plus 60 percent of K151-200/m³; plus 70 percent of above K200/m³. Landowner royalties would be absolute fees based on the f.o.b. price of the exported log as follows: K8/m³ for f.o.b. prices of up to K90 per cubic meter (m³); K12/m³ for K91-110/m³; K15/m³ for K111-130/m³; K18/m³ for K131-150/m³; K23/m³ for K151-200/m³; and K23/m³ plus 7.5 percent of f.o.b. prices above K200/m³. In addition, landowners would be entitled to negotiate additional monetary or non-money premiums. These marginal tax rates and royalties would be applied to domestically processed logs for commercial purposes as soon as practical, but no later than June 30, 1996.
21. Provide the Forest Authority with an operating budget equal in real terms to that allocated in 1995, in timely disbursements. Provide separate and adequate funding for the existing surveillance contract, or any additional activities required for surveillance or management of forest resources and approved by the NEC [Cabinet] or the Department of Finance and Planning.
22. Ensure that the Forest Authority formally adopts a forestry and operational code of conduct (the Suva Code of Conduct or, once complete, PNG's Code of Logging Practice) for implementation in the field.

Source: GoPNG 1995b.

Two considerations explain this focus on forestry. First, as we have seen, the Bank and its allies had devoted a great deal of time, effort and money to the pursuit of 'sustainable forest management' through the NFCAP. Although the Bank was about to abandon its role in the coordination of this program, there were still several 'loose ends' in the process of policy reform with which it had been connected. Second, and rather more disturbing for the Bank, the balance of power within the Chan government appeared to favour the blockage or reversal

of this process. Although the Bank offered to provide a separate forestry sector loan to strengthen the capacity of the PNGFA to implement key provisions of the *Forestry Act*, the government showed little or no interest in this offer.¹ Despite the doubts aired by the macro-economists, the Bank's regional forestry and agriculture specialists were thus able to persuade the Country Director of the need to place particular emphasis on loan conditions relating to forest policy.

Andrew Posai's appointment as Minister for Forests, in September 1994, immediately set the alarm bells ringing in Washington (as well as in Port Moresby), because his own electorate accounted for nearly half of the country's total log exports. These fears would have been confirmed by his immediate promise to revise the National Forestry Development Guidelines to reflect the concerns of 'resource owners', by which he seems to have meant the landowner company directors (like himself) who were represented by the FROA. He soon tried, but failed, to persuade the National Forest Board to sack its Managing Director, Jean Kekedo, who had been an outspoken advocate of policy reform under the previous government. When the first ERP Appraisal Mission arrived in February 1995, the Minister was seeking Cabinet approval for amendments to the *Forestry Act* which would grant him the power to dictate Board decisions and to issue timber permits at his own discretion (Filer 1998: 158).

It is true that the Minister had announced the long-awaited changes to the forest revenue system in October 1994, and may well have sympathised with the Bank's desire to raise the resource owner's share of the proceeds from logging, because the voters in his own electorate would obviously stand to benefit. But shortly afterwards, the Minister for Finance and Deputy Prime Minister, Chris Haiveta, maintained that the government would resist 'international pressure' to raise log export tax rates. And although the previous government had contracted the Swiss company SGS to monitor the country's log exports in order to minimise the incidence of transfer pricing, the new government claimed that it could not find the money to pay the contractor for this service.

The change of government also happened to coincide with the start of a campaign by the Australian Government to persuade all the Pacific island nations to subscribe to a 'regional code of conduct' for sustainable forest management. A proposal along these lines was endorsed at the annual meeting of the South Pacific Forum in August 1994, and reiterated at a meeting of Pacific country representatives with multilateral aid agencies in February 1995 (South Pacific Forum 1995). The Bank took this opportunity to present its own views on log export revenue distribution, and was thus inclined to see the logging code of conduct and the forest revenue system as two sides of the same coin which was then being pressed into the box of 'sustainable development' conditions attached to the ERP Policy Matrix.

¹ The Department of Finance and Planning regarded the Bank as the 'donor of last resort', which meant that the government was unwilling to borrow money from the Bank for any project which could be financed by grant aid or by other lending agencies (such as the ADB) which charged lower rates of interest (GoPNG 1993c: 41).

In effect, these five conditions had three simple aims:

- to stop the Forests Minister from interfering with the *Forestry Act* or the National Forest Board;
- to limit the physical damage inflicted on natural forests by the 'selective' logging practices allowed under most timber permits; and
- to keep the maximum possible share of the resource rent in the hands of the national government or local landowners.

Reformist elements within the National Forest Service and other key sections of the central bureaucracy played an active part in refining the measures to be adopted in pursuit of these goals, while sections of the NGO community were quickly alerted to the Minister's proposal to amend the *Forestry Act*, and organised another press campaign against it.

None of these measures could be regarded as radical departures from long-established and well-publicised policy commitments, with the possible exception of the forest revenue system. The battle over the composition of the National Forest Board had been going on for years, but the defenders of its independence were now well entrenched in their public postures. The imposition of a fixed-term cutting cycle on timber concessions had been mooted in the TFAP Review and then confirmed in the National Forest Policy; officers of the NFS and the DEC were already putting their heads together to design the Logging Code of Practice; and other government officials had already devised a method of funding the SGS contract outside the recurrent budget, by applying K3 million out of European Stabex funds to this worthy cause. In all these respects, the 'sustainable development' conditions amounted to little more than 'business as usual' – the continuation of a process of reform to which the Bank and its national allies had been jointly committed for some years past.

On the other hand, the proposed revenue system appeared to represent a novel compromise between the Bank and the national policy reformers. One of the principal features of the new system was the introduction of a sliding scale of export tax rates, which was intended to limit the surplus profits secured by the logging companies during periods when prices were as high as they had been in 1993 and 1994, while protecting their 'normal' rate of profit if prices were abnormally low. For example, the tax levied on logs selling for less than K90 per cubic metre would only be 15 percent of the f.o.b. price, whereas logs selling for more than K200 per cubic metre would be taxed at a rate of at least 35 percent. In 1994, the average log price was about K158 per cubic metre (equivalent to US\$148 per cubic metre by the end of the year), and logs selling at this price attracted a 28.3 percent rate of tax, which was actually lower than the fixed rate of 31.2 percent charged on all logs under the previous export tax regime that was introduced in the 'mini-budget' of March 1994. Since there was no further mention of stumpage charges, except insofar as the local processing industry would now be required to pay a tax equivalent to the export tax, we may assume that the Bank had won the argument on this score.

However, the Bank was not responsible for the other important feature of the new system, whereby royalty payments to landowners would also be adjusted to log export prices by an equally complex formula (see Box 3.2) which would have the rather simple effect of providing them with 10-11 percent of the total export value, once the national government had deducted its 5 percent royalty withholding tax from their receipts. This represented a significant increase on the fixed rate of approximately K3.50 per cubic metre which was payable under the existing system, and which accounted for less than 2.5 percent of the log export price at the end of 1994. When combined with the new rates of export tax, the net result would therefore be a 5 percent reduction in the logger's share of the prevailing log export prices.

Back in 1989, the Bank had argued that royalties should not be linked to the log export price because this would expose resource owners to the consequences of market instability (World Bank 1989: 32). This rather peculiar argument had since been overtaken by a concern to ensure that all the local residents in each timber concession should receive some long-term economic benefits from a logging operation. Periodic injections of large amounts of cash into the pockets of a few landowners was most unlikely to produce this result. On this point, most national bureaucrats were in agreement with the Bank. Our sources indicate that the principal architect of the new royalty regime was the Prime Minister himself, but if that is the case, we are left to wonder whether he wanted to make it easier for landowners to understand and support the new system, or to make it easier for the logging companies to oppose and defeat it.

We do not know how many government ministers identified their own interests with those of the logging industry to the extent of actively opposing the new revenue system, or other features of the ERP Policy Matrix, when they were first mooted. But there were several other items on the Bank's shopping list which were no less controversial when they came to Cabinet. First, there was the abolition of the Commodity Price Support Scheme, which had been introduced by the previous government as a mechanism for stabilising (or rather subsidising) the incomes of rural smallholders in the face of depressed world market prices for the country's major export crops. This was apparently seen as a threat to the electoral support base of many national MPs, especially those representing the major coffee-growing areas of the central highlands.

Second, the Bank's desire to reduce or eliminate the tariff barriers surrounding a number of 'turnkey projects', which individual government ministers had negotiated with selected foreign investors, posed an obvious threat to the personal benefits which those ministers might hope to secure from such cosy arrangements. The protagonists of this particular form of import substitution were also opposed to the abolition of the Reserved Activities List, which prohibited foreigners from engaging in certain forms of business activity. A public stand in defence of the 'small national businessman' provided a useful smokescreen for their own efforts to collect 'monopoly rents' from foreign investors, including the rents charged for condoning their entry into the 'reserved' activities.

Last, but not least, government ministers were united in defence of the so-called Electoral Development Funds (known to the public as 'slush funds'), which were allocated to all national MPs for unbudgeted (and largely unaccountable) expenditures in their respective electorates, because this pork barrel was a crucial ingredient of their political survival strategies.

By March 1995, when the government's budget was finally approved by Parliament, the Bank had apparently weakened its stance on some or all of these hot political potatoes, though not to an extent which wholly satisfied their most ardent advocates. Nor was there any hint of compromise on the question of 'sustainable development'. As a result, the Finance Minister spent the better part of April in a series of futile attempts to find another source of financial support before the government finally agreed to the loan conditions offered by the Bank's second Appraisal Mission in May.

Much ado about land reform

When the third Appraisal Mission arrived in PNG in July 1995, its members were greeted with an outburst of public sentiment against a 'loan condition' which had featured in an early draft of the ERP Policy Matrix, as one of a group of second tranche conditions relating to the 'private sector promotion' objective. Although this condition had been deleted at the insistence of national bureaucrats who recognised its potentially controversial nature, it was still present in the draft document which fell off the back of a proverbial truck and into the arms of Port Moresby's 'radical intelligentsia'. The condition in question read as follows: 'Complete framework legislation for customary land registration. Complete registration in East New Britain and East Sepik.'²

At the beginning of June, one local NGO (Melanesian Solidarity, or Melsol) had announced its intention of organising a popular campaign against the entire structural adjustment package (*Saturday Independent*, 3 June 1995). The National Coalition for Socio-Economic Justice (NCSEJ), described as an 'alliance of trade unions and community groups', was established shortly afterwards, with Melsol's Peti Lafanama as its Campaign Director. The campaign was ignited in the second week of July, after public attention was suddenly drawn to the so-called 'land reform condition' of the ERP (*Saturday Independent*, 8 July 1995).³ Within a matter of days, students at the University of PNG, egged on by certain members of the academic staff (including the Acting Vice-Chancellor), set up barricades and roadblocks around their campus, and were busily setting fire to captured government vehicles. As a wave of

² One of our sources in the Bank has told us that this condition was mooted by Pirouz Hamidian-Rad, who was the Senior Economist working on the Policy Matrix, and that officials in the Department of Finance 'had a fit' when they saw it.

³ Another source in the Bank maintains that this draft condition originally included a sentence which made it perfectly clear that registration would be a voluntary exercise, but that this sentence was accidentally or deliberately excised from the draft which was leaked to the press.

public meetings and riots spread through the urban centres of the central highlands, a more protracted surge of populist rhetoric washed through the pages of the national newspapers (see Filer 1997: 166-167). This persisted long after the Bank and the government had agreed that the whole concept of customary land registration was a hot potato which should be dropped in the nearest ocean.

The President's Report to the Board on the ERP loan, submitted at the beginning of August, rather drily noted that:

In recent weeks the issue of land registration ... has been used by vested political interests to create a wedge between some local NGOs and the structural adjustment program – although there is no explicit conditionality on this. As the true facts become known, this agitation is getting defused (World Bank 1995: 12).

While 'vested interests' abound in the Bank's conception of stakeholder relationships, and the 'true facts' may never be known, this episode raises a number of important questions about the Bank's capacity to secure popular support for even the most 'progressive' of its loan conditions, and the government's capacity to deliver any kind of policy consensus over structural adjustment.

Even if the infamous 'Condition 14' had survived the cautious scrutiny of the national bureaucrats, it was neither novel, nor radical, nor even relevant, in any obvious way, to the stated goals of the ERP. Framework legislation had been recommended, more than twenty years previously, by a Commission of Inquiry into Land Matters whose membership was wholly indigenous, and whose main interest lay in the legal validation of customary land tenure as a basic condition of national development (GoPNG 1973; see also Bredmeyer 1975; Ward 1983). The same recommendation was repeated, ten years later, by a national government Taskforce on Customary Land Issues (GoPNG 1983). Meanwhile, the East Sepik Provincial Government had initiated its own scheme for customary land registration in 1982, under a policy designed to encourage smallholder cash crop development, and to give landowners greater control over large-scale resource development projects, without any input at all from the national Department of Lands (Power 1991).

Whether at the national or provincial level, registration appealed primarily to 'social democratic' elements within the political and bureaucratic elite, while academic commentators aligned with the private sector were inclined to argue that registration without tenure conversion could only become a costly and futile exercise in bureaucratic bungling (Knetsch and Trebilcock 1981; Cooter 1989). On the other hand, bureaucratic inertia also played an important part in keeping the national framework legislation out of the statute books until the whole concept was turned into a big stick with which to beat the Bank about the head.

The Bank's involvement in this issue dates back to 1985, when the Program Management Unit in the Department of Finance embarked on an effort to sort out the messy relationship between national and provincial levels of land

administration. This 'unit' was part of a Bank-sponsored project to develop a new national planning system, known as the 'Resource Management System', which would facilitate the process of decentralisation. In 1986, the Bank contributed substantially to the design of a Land Evaluation and Demarcation Project, which was meant to facilitate new projects in the agriculture and forestry sectors by improving the performance of the Lands Department (Turtle 1991).

Meanwhile, the Australian government paid for the services of a legal consultant who drafted a *Provincial Land Act* and *Customary Land Registration Act* for the East Sepik Provincial Government (Power 1991). When those acts were passed in 1987, three other provincial governments expressed an interest in following suit, and the same consultant was then engaged, at the Bank's expense, to draft both national framework legislation and model provincial legislation for registration of customary land (Fingleton 1991). By 1988, when these tasks were completed, the 'project' had evolved into a Land Mobilisation Program, which aimed to strengthen the capacity of the Lands Department to 'mobilise' (i.e. register and develop) both alienated and customary land for appropriate economic use across all sectors of the national economy. The program was supposed to recognise the 'underlying need to facilitate the participation of customary landowners in the development of their own land which, while not impossible under the current land administration regime, could be very much improved' (Turtle 1991: 94).

While the World Bank and the Australian government continued to fund the Land Mobilisation Program for a period of five years, starting in 1989, nothing of substance was achieved in that part of the program which was supposed to 'mobilise' customary land. Condition 14 made its brief appearance as testimony to the Bank's impatience with this lack of progress. In the specific context of the ERP, the Bank's interest in questions of customary land ownership was more obviously tied to the five 'sustainable development' (i.e. forestry) conditions, because the Bank had more recently been involved in the implementation of those sections of the new *Forestry Act* which required that landowners be 'incorporated' under the *Land Groups Incorporation Act* (1974) as a precondition of their assent to Forest Management Agreements with the State.

The *Land Groups Incorporation Act* was itself the brainchild of the same Commission of Inquiry into Land Matters (GoPNG 1973) which had recommended separate legislation for the registration of customary land. It might even be regarded as a step in the direction of registration, since it was originally meant to enable customary 'land groups' to achieve some independent legal standing in their dealings with outsiders, without going so far as to determine the actual boundaries of their land. The eventual use of this Act as a device for securing the 'informed consent' of landowners to new forestry projects had certainly not been envisaged by the Commission of Inquiry, but should rather be seen as a compromise necessitated by the absence of any legal basis for registration.

Given the lack of any relevant institutional capacity in the Lands Department, officers of the NFS were now required to do the actual work of incorporating land groups before they could engage in the additional business of negotiating Forest Management Agreements with the groups which they had just helped to incorporate. The World Bank therefore grafted a 'landowner involvement component' into the NFCAP Forest Management and Planning Project with a view to training forestry officials in this particular form of land administration (PNGFMPP 1995). The Bank was well aware that this was not a satisfactory long-term solution to the problem of achieving 'landowner participation' in the forestry sector, which might also explain the application of an extra boot to the backside of the Lands Department. However, there is no evidence to suggest that the Bank had an explicit strategy to link the progress of 'land reform' with the process of forest policy reform at this juncture.

These considerations made no impact at all on the rumour mills operated by the populist opponents of the ERP. Their attention was focused on the nefarious clauses supposedly contained in the national framework legislation which was then being circulated for public discussion. In point of fact, the draft *Land Registration (Customary Land) (Amendment) Bill* simply proposed that an incorporated land group should now have an option to register its land (through the Land Titles Commission), thus creating a further option to lease land to a third party, who could then use that lease as security for a bank loan (Henaos 1995). There was no provision for alienation of the land itself, only for the lease to be transferred to the creditor in the event of default. But those who read between the lines could detect a hidden agenda. This began with the idea that 'big men' could use the loopholes in the legislation to expropriate the other members of their customary land groups, then proceeded to the idea that leading politicians were planning to lease huge tracts of customary land to Asian companies for the development of new oil palm estates (Aid/Watch 1995), and ended up with the belief that the national government would offer the people's land to the World Bank as security for the ERP loan to which the 'land reform condition' was supposedly attached (Kavanamur 1998).

While some commentators lamented the 'aggressive disinformation program conducted by PNG's tiny, unrepresentative, Port Moresby-based NGOs' (Callick 1995), or observed that 'the students have created a "strawman" so that they can demonstrate their skills and passion in tearing it down' (Millett 1995), it is not hard to see why the 'masterminds' of the protest movement, who were deeply opposed to the whole concept of structural adjustment, should have made the tactical choice to dig their trenches in the more specific concept of land reform. Their immediate constituents had other reasons to oppose the ERP. The students, for example, were understandably alarmed by a proposal to apply the 'user-pays' principle to tertiary education, while the trade unions were against the abolition of the minimum wage, and the public service unions in particular were facing the loss of 4,500 jobs in the public sector. But experience had shown that none of these interest groups could muster widespread popular support for the defence of their specific interests. To find a common cause, they could try to blame the fiscal crisis of 1994 on the previous structural adjustment program, which they

certainly did. But they also had to find a 'loan condition' that would strike fear into the hearts of the rural masses. If the Bank really did supply them with the necessary ammunition, then the Bank had made a major blunder.⁴

The Bank was probably also mistaken in its belief that the forces rallied under the banner of the NCSEJ were merely the puppets of 'vested political interests' with more sinister motives for opposing the ERP. Of course, they had the support of Opposition MPs, because PNG's parliamentary opposition normally behaves in the manner expected of it under the Westminster system. There were two notable exceptions to this rule in 1995, but neither indicates a broader conspiracy between national politicians and 'grassroots activists'. As we have seen, nearly all the national politicians were adamantly opposed to the abolition of their 'slush funds', but the Bank had already agreed to a compromise on this issue, and its populist opponents took this as further evidence of the Bank's complicity with the political elite. Likewise, most national politicians were in favour of the new *Organic Law on Provincial Governments and Local-Level Governments*, which received parliamentary approval just before the land reform debacle, because it granted them direct control over district and provincial administration (May 1997). But the Bank was unable to influence the substance or timing of this legislation, and there was no need for national politicians to divert popular opposition to it, because the system which it replaced was already so thoroughly unpopular.⁵

By July 1995, the outstanding bones of contention between the Bank and certain ministers of the national government were the proposals to wind back import controls and get rid of the Reserved Activities List. The Minister for Commerce and Industry, who was the most outspoken champion of what the Bank later described (1997a) as a bunch of 'monopoly rent-seekers' masquerading as a national business lobby, was still venting his spleen on the ERP in full-page newspaper advertisements. However, these made no mention of the land reform issue, or any of the other issues which were animating the members of the NCSEJ.

If anything, the irony lay in the fact that the Bank and its populist opponents suspected each other of doing 'secret deals' with their common enemies amongst the political business class. But these enemies were not so fiendishly cunning and well-organised that they had the capacity to orchestrate this mutual suspicion for their own personal benefit. It may be true that the Prime Minister himself was talking up the spectre of land reform in April 1995, when the Finance Minister was still hunting around for loans which lacked the strings attached to

⁴ Bank staff maintain to this day that their populist opponents admitted in public meetings around the country that they had deliberately fabricated the 'land reform condition' to suit their own purposes. But populists have short memories, and we have not been able to find a participant in the campaign who will now make the same admission.

⁵ Bank staff say that they were caught off guard by the speed with which the Organic Law was enacted, and could only react by adding some last-minute conditions to the ERP Policy Matrix which would establish standards for provincial service delivery under the new system.

the ERP, and his statements do seem to have rung some alarm bells in the minds of the radical intelligentsia (Smith 1998), but there is no evidence that he actually meant to provoke the campaign which was later directed against the Bank, as well as his own government.

Nevertheless, the noisy burial of the 'land reform condition' encouraged all the national opponents of the ERP to believe that they still had a reasonable chance of subverting those specific loan conditions which threatened their own material interests. As we shall see, that opposition included the log export industry and those members of the political elite who were associated with it. The 'sustainable development' conditions were notable by their absence from the public debate which took place in July 1995, because none of the groups participating in that debate could attract wider public support for their cause by attacking or defending those conditions.

If Bank staff had previously thought that such conditions would serve to win over the populist critics of the logging industry, they were now obliged to recognise that national ownership of most aspects of the ERP was restricted to policy brokers within the bureaucracy and the private sector whose influence over public opinion was clearly quite limited. Some members of the national NGO community who had a longstanding interest in forest policy issues were well aware of the Bank's 'sustainable development' conditions, and were not slow to recognise the need to forge a tactical alliance with the Bank in order to prevent the government from winding back the process of reform (Brunton 1995; Cortesi 1995), but their public postures were initially constrained by their participation in the popular campaign against the structural adjustment program as a whole.

Political resistance to 'sustainable development'

When the third Appraisal Mission left PNG at the end of July 1995, it had secured the government's agreement to all the remaining conditions of the Policy Matrix, and had the satisfaction of knowing that the erstwhile Forests Minister, Andrew Posai, had just been convicted of misconduct by a Leadership Tribunal. Shortly afterwards, the Bank disbursed US\$15 million from the first tranche loan of US\$25 million, triggering the release of another \$80 million from the IMF, the Australian Government, and the Japanese EXIM Bank. By that time, PNG's Logging Code of Practice had already been drafted (GoPNG 1995a), and should have received immediate Cabinet approval. But this was not forthcoming, and the government tried instead to delete discussion of the regional code of conduct from the agenda of the South Pacific Forum meeting for which took place in September. At the same time, the new Minister for Forests, Andrew Baing, renewed his predecessor's efforts to ditch the PNGFA's Managing Director, Jean Kekedo, because she refused to collaborate in his plans to speed up the allocation of new timber permits and formulate another set of amendments to the *Forestry Act* which would stack the National Forest Board with members appointed 'at the Minister's pleasure'. Although the Board resisted for a while, Kekedo was finally removed in November 1995.

It still appeared that the Finance Minister, Chris Haiveta, was keeping to his part of the government's bargain with the Bank. The forest revenue measures announced in the 1996 Budget were identical to those contained in the Policy Matrix, except for the fact that the minimum royalty payments to landowners (on logs with an export value of up to K90 per cubic metre) had actually been raised from K8 to K10 per cubic metre. However, at this stage in the proceedings, it was not clear whether the new scale of royalty payments was intended to supplement or replace the premiums and levies paid to landowner companies under existing agreements. The logging companies evidently took the view (as they had done during the earlier debate over the National Forestry Development Guidelines) that these agreements were legally binding, and therefore began a vigorous campaign to block the implementation of the new system. Baing promptly agreed to maintain the existing level of royalty payments for the time being, and Chan himself conceded that the new revenue system would mean 'death' for the logging industry (*Post-Courier*, 5 December 1995). Just to put the icing on the cake, Baing then directed the PNGFA to 'review' the Code of Practice, and tabled his Board-stacking amendments on the floor of Parliament in February 1996.

By this time, the Bank's first ERP Supervision Mission had arrived in PNG, and its presence might explain why Parliament declined to pass the amendments. Nevertheless, the team leader, Pirouz Hamidian-Rad, made a premature exit after an argument with Finance Department officials over the government's failure to implement a variety of first tranche loan conditions, including those which related to forest policy. The Bank then formally requested the Prime Minister to reaffirm the government's commitment to 'protect the integrity' of the National Forest Board, enforce all aspects of the new revenue system, approve and implement the Code of Practice, and also devise a policy framework for the so-called 'agroforestry' projects whose proponents were seeking to evade the resource allocation procedures specified by the *Forestry Act*.

Cabinet then agreed to put aside the most controversial features of Baing's proposed amendments, endorsed the Code of Practice, issued directions for the preparation of a new 'agroforestry' policy, and appointed an inter-departmental committee to review the royalty component of the new forest revenue system. But the battle over the revenue system took a new turn with the arrival of the Malaysian Minister for Primary Industries, who made no secret of his support for the Malaysian logging companies in PNG, and Chan's return visit to Malaysia, where he was entertained by the largest of those companies, Rimbunan Hijau, and repeated his intention to defy the Bank. This new manifestation of the government's 'Look North' policy provoked a good deal of critical comment in the national press, much of which was written by the same people who had been directing their xenophobic tirades against the World Bank and the IMF only nine months previously. It also provoked the Bank into serving the PNG Government with a ninety-day notice of default on the first tranche loan conditions.⁶

⁶ At this stage, it was estimated that the government would forfeit K279 million in loans from

Meanwhile, the 'backroom boys' in the NFS had once again been tinkering with the design of the revenue system in an effort to break the deadlock. They could see that the abolition of payments due to landowner companies under existing agreements could 'destabilise the political situation' in many concessions, as well as being subject to protracted challenge in the courts. It was therefore proposed that the royalty payment be fixed at K10 per cubic metre, regardless of the log export price, and that the balance of the 'landowner benefit' be paid in the form of a Project Development Levy (PDL), to be held in trust by the PNGFA while the landowners in each concession decided whether they wanted to maintain the existing system of levies and premiums or to distribute the funds in some other way (*Independent*, 5 March 1996).

In further discussion with the Bank, it was recognised that the NFS did not have the capacity to determine the wishes of the 'landowners' in this respect, and it was therefore decided that logging contractors should be allowed to deduct the value of landowner benefits provided under existing agreements from their liability to pay the PDL, but that the full amount of the levy should be paid under all new project agreements. It was also agreed that 40 percent of the new levy should be distributed in cash to members of the local community, providing a mechanism which could be used to 'compensate' those landowners who were not currently having their trees cut down, or those who might never have their trees cut down because they occupied a designated conservation area. The other 60 percent would then accrue to Project Development Committees, which would include representatives of the PNGFA, the relevant provincial government, and the holder of the Timber Permit, and which would spend these funds on the general 'development' of the project area. In the case of new projects, these committees would also gain access to the reforestation levies previously paid to the national government.⁷

Staff and consultants in the NFS, including those associated with the Forest Management and Planning Project, were also at work on the new 'agroforestry' policy to which Cabinet had reluctantly agreed. The need for a new policy was explained in the Cabinet submission which they had drafted by May 1996. This explicitly aimed to prevent the abuse of Timber Authorities as a device for large-scale logging under the guise of clearance for agricultural development or road construction. The submission described the 'core issue' as Cabinet's tendency to approve policy submissions from individual ministers who might have no formal responsibility over forestry matters, and who were not formally obliged to consult with their departmental officials on the merits of their proposals. This behaviour was held to be inconsistent with Cabinet's previous endorsement of

various sources if it failed to meet the Bank's conditions. A brief prepared for the Minister for National Planning (GoPNG 1996) described the Bank's next Supervision Mission as a team of 'undertakers'.

⁷ The government's contribution to this compromise was formally negotiated by an 'inter-departmental working group' comprising representatives from the Department of Finance, the National Planning Office, the Internal Revenue Commission, the PNGFA, and the State Solicitor's Office.

the Forestry Regulations (which included 'Guidelines for the Issuance of Timber Authorities') and with the Code of Practice, and thus to be in breach of the conditions attached to the ERP (Filer 1998: 196-198). Most of the major logging companies seem to have supported the closure of this loophole, because those which sought to exploit it were among the less 'respectable' members of the FIA. Despite the lack of enthusiasm from those ministers who had been implicated in such exploitation, Cabinet approved the submission (as NEC Decision 113/96) in July 1996, and thus reasserted the power of the PNGFA to vet any proposals which entailed the clearance of more than 50 hectares of forested land for large-scale agricultural development or road corridors more than 40 metres in width.

However, while the bureaucrats had evidently done their best to establish some common ground with the log export industry and its political allies, the Bank's second and third supervision missions, which arrived in May and July respectively, found that the Forests Minister was still captivated by the publicity campaign which the FIA continued to wage against the new revenue system. The industry still maintained that it could not afford the new level of landowner benefits because the government (or the World Bank) was underestimating its production costs by a substantial margin, and had failed to make allowance for the logger's need to save some surplus for the rainy day when log export prices would surely fall below their current levels. Despite the compromise which had been attempted in respect of the PDL, the FIA was still opposing the new level of landowner royalty payments, because it claimed that the cost of existing levies and premiums already exceeded an average of K20 per cubic metre, and was also up in arms about the imposition of a 'processing tax' (equivalent to the log export tax) on domestically processed logs.

The Bank's final concession was to promise an independent audit of existing landowner benefits, production costs, and the economics of downstream processing, yet this still failed to satisfy the FIA, which complained that such studies should have been completed before the new revenue system was introduced. In the event, it seems that Minister Baing only agreed to gazette the new system after the Prime Minister had sent him a threatening letter. The Association then took out full-page newspaper advertisements which advised its members to defy the government by refusing to make the extra royalty payments (*Post-Courier*, 12 July 1996). When the Bank's Country Director left the country towards the end of July, she thought that the royalty issue was one of two ERP loan conditions on which the government was still dragging its feet, primarily because there had been no clear indication of the date from which the new system would be fully effective (*Post-Courier*, 27 July 1996).

Within days of the mission's departure, Parliament approved Baing's latest set of amendments to the *Forestry Act*. In the eyes of the Bank's lawyers, these were not just the 'technical' amendments to the composition of the Board which had been agreed during the previous weeks, but gave new powers to the Minister and Cabinet which were in flagrant breach of the relevant loan condition. It seems possible that there had been a genuine misunderstanding here, which ultimately turned on the presence and significance of a couple of words in the

amendments, for when the Bank then threatened to scrap the rest of the ERP unless the offending sentences were removed, Chan was able to rally the whole of Parliament behind him before finally declaring that the Bank could 'go to hell' (*Post-Courier*, 5 September 1996). On the other hand, Bank staff maintain that the government had simply underestimated the extent of their own resolve.

Within the Bank itself, it seems that the government's profession of outrage may have opened up a division between the 'hardliners', who were insisting that the ERP should stand or fall on this one condition, and those who felt that a public humiliation of the government would only jeopardise its long-term 'ownership' of the program as a whole. It is not clear whether government ministers were aware of this division of opinion, but attempts were made to secure the assistance of the Australian Government in putting PNG's case to the Bank. Finance Minister Chris Haiveta complained that the Bank was using PNG as a 'guinea pig' for its phased approach to loan conditionality, and observed that the government would be prepared to forgo the Bank's second tranche loan, if only the Bank would endorse the overall program, and thus enable the government to secure some of the other loans which were tied into it (*Post-Courier*, 3 September 1996). Whatever his hopes on this score, he then proceeded to table a Finance Bill, which proposed to raise K100 million in extra domestic revenues by imposing new taxes on such basic necessities as rice and petrol, and a Revised Appropriation Bill, which authorised another K120 million in additional government expenditure, partly in order to cover the cost of unplanned loan repayments. This package of measures would certainly have breached the stand-by loan agreements with the IMF, but the public outcry over the new taxes persuaded the Prime Minister to claim that he knew nothing about them, because he had been absent from the country at the time. Both bills were promptly withdrawn.

By this time, the Bank's fourth Supervision Mission was back in town to gracefully accept the government's surrender. Implementation of the new revenue system would be backdated, and the offensive amendments to the Act would be unamended. In an address to Parliament, Chan maintained that the government's actions had been 'impeccably correct', but that it was now necessary to come to terms with:

a somewhat unpleasant fact – failure to accede to the Bank's demands would place our long-standing credibility and standing at risk. In an independent world where economic reputation and international standing are valuable commodities, it is now time to accept (*Post-Courier*, 9 October 1996).

A small piece of pride was saved by the Parliamentary Privileges Committee, which found that the Bank had been guilty of contempt of Parliament, but recommended that no action be taken to impose the statutory penalty comprising a K400 fine or six months imprisonment (*Post-Courier*, 10 October 1996).

However, while the forest policy stand-off was still a prominent topic of public debate, the Bank was now more concerned with the implementation of several other loan conditions within the framework of the 1997 Budget,

especially in light of the growing number of obstacles which had been thrown up by the new system of provincial and local-level government. It was only after the fifth Supervision Mission had taken a 'hands-on' approach to drafting the budget that the Bank was reminded of the government's continued failure to gazette the re-amended version of the *Forestry Act* and the other policy statements required of it. Once again, the government's feet were held to the fire, the omissions were duly rectified, and the second tranche loan of US\$25 million was finally released in January 1997, almost twelve months after it was due. By that time, Bank staff had spent the equivalent of 113 weeks on the supervision of the ERP, which was almost three times the amount of time which was originally planned (World Bank 1997a).

Shopping for civil society

The intransigence of the Bank in the face of persistent grumbling by the log export industry and persistent dithering by the PNG Government may partly be attributed to the growing conviction in Washington that the Bank now had a strategy to counter the 'wedge' which 'vested political interests' had driven between itself and local NGOs when they raised the spectre of 'land reform' in July 1995. The strategy was to cultivate the support of these same NGOs, by consulting them at great length on the rationale of the ERP, and by placing particular emphasis on the significance of its 'sustainable development' conditions, as well as the separate condition which bound the government to increase the level of its financial support for NGOs themselves in the delivery of 'social services'. In this way, the institutions of 'civil society' would be encouraged to drive a counteracting wedge between local landowners and the vested interests of the log export industry, and would also provide some vocal harmonies for the silent efforts of reformist elements in the bureaucracy to keep their political masters in order. In other words, the Bank took the borrower's deficient sense of 'ownership' as the pretext for an effort to broaden the boundaries of its national constituency – an effort which received the personal endorsement of the Bank's new President, James Wolfensohn, who had come to regard this form of consultation as a key component of the 'new Bank's' global strategy.⁸

The ERP Task Manager, Pirouz Hamidian-Rad, agreed to regular meetings between Bank staff and representatives of the NCSEJ during the height of the campaign against land reform, and announced the Bank's intention of opening a permanent liaison office in Port Moresby, which would facilitate the process of consultation with local interest groups, as well as with the government. In November 1995, the Bank engaged an Issues Manager whose brief was to foster this dialogue with a broad cross-section of the NGO community, and who made a dozen visits to PNG over the course of the following two and a half years. In

⁸ Our sources indicate that pressure from Australian NGOs had a particular impact on the Bank's decision to 'reach out' to the NGO community in PNG, even before such outreach was entrenched in the policies of the 'new Bank'.

February 1996, at the time of the first ERP Supervision Mission, team members addressed a three-day seminar, at which 'resource owners and landowner company representatives' were brought together under the auspices of the NCSEJ to discuss the program's forest policy conditions, especially the benefits of the new revenue system.

One of the organisers, Noah Ariku, who was then General Secretary of the NCSEJ, announced that the participants had agreed to establish a (new) National Forest Resource Owners Association, which would no longer be living in the pockets of the log export industry. A note of dissent was sounded by Melsol representatives, who claimed that their organisation had not been consulted about the formation of this body (*The Independent*, 1 March 1996), but radical NGOs still played an active role in campaigning against the government for its failure to introduce the new scale of landowner royalty payments which were promised in the 1996 Budget.

As debate over the revenue system intensified during the visit of the third ERP Supervision Mission in July 1996, two different bodies, both claiming to be the 'real' FROA, published full-page newspaper advertisements which expressed diametrically opposing views. Noah Ariku, now doubling as Executive Director of a body called 'Mission Innovator Incorporated', published facts, figures and arguments which sounded very much like those which the Supervision Mission itself was then pressing upon the reluctant Forests Minister. The other 'FROA' was still acting in its accustomed role as an ally of the FIA, accusing Ariku and his 'innovators' of being nothing more than puppets of the Bank. In typical Melanesian fashion, the two groups then held a joint meeting to iron out their differences, and apparently came up with a compromise position which entailed support for the basic royalty payment of K10 per cubic metre, but opposition to the idea of substituting the PDL for existing payments to landowner companies (*Post-Courier*, 1 August 1996).

More importantly, perhaps, Ariku seems to have secured his own position as General Secretary of this compromised organisation, and could thus lay claim to a seat on the National Forest Board which was reserved to 'landowners' under one of the 'technical' amendments to the *Forestry Act* to which the Bank was not opposed.⁹ By this time, however, his own faction within the FROA had been partially converted to the cause of the log export industry, and Ariku was unable to exert much influence on the process of appointment. The Bank rewarded his previous efforts by appointing him to the position of 'NGO Liaison Officer', in which capacity he continued his campaign to demonstrate 'national ownership'

⁹ Under this particular amendment, the Provincial Forest Management Committees in each of the four regions of PNG were to nominate two 'forest resource owners' for membership of the NFB. The Minister would then ask Cabinet to appoint one of the two nominees from one of the regions (with the other nominee as an alternate member) for a period of two years, after which the process would be repeated, and the seat would have to be allocated to a representative from a different region. The first appointment (of a representative from the Mamose region) was not made until 1997, when the amendments had finally been gazetted.

of the ERP's forest policy conditions. When the Bank later forced the government to swallow its unacceptable amendments to the *Forestry Act*, Ariku rejoiced in its victory by publishing a newspaper article, under the heading 'Forestry reforms from a layman's perspective', which concluded as follows:

The World Bank's adamant stand on forestry reforms is in the best interest of the nation, at least the silent majority in the hamlets in the most remote parts of PNG who, in order to reach the nearest government post, travel the tracks made by semi-trailers dragging logs through the forest for export. Vitriolic criticisms, arrogance, misinformation and naivety are the threats to our sovereignty (cited in Filer 1998: 161).

Anyone reading the entire text of this article would find it hard to avoid the conclusion that substantial parts of it were 'ghost-written' by Bank officials.

Ariku was not by any means the only member of the national NGO community to support the Bank's hard line against the government, but the rest of them were much more circumspect about the risk of being seen to embrace the Bank's wider agenda. In August 1996, some members of the radical NGO camp purportedly combined with various other 'resource owners' to form a body known as the 'PNG Watch Council for Socio-Economic Justice', with Melsol's Peti Lafanama as its Chairman. This was to be the 'mouthpiece' for the NCSEJ, from which the FROA had now been excluded, and was to act as a conduit for negotiations between all donor agencies and the 'grassroots' people of PNG. The Watch Council was supposed to include representatives from eight 'sectors' of 'civil society': resource owners, NGOs, students, youth, 'community-based organisations', trade unions, churches, and the 'advocacy sector' (*Post-Courier*, 14 August 1996). By some accounts, Bank staff actively encouraged the formation of this body, because they saw it as an appropriate 'focal point' for the Bank's own dealings with 'civil society'. In practice, it was dominated by a small group of individuals with close ties to its Chairman, most of whom would think of themselves as members of the 'advocacy sector', which meant, in some cases, that they already had plans to stand for Parliament in the 1997 national elections.

From the Bank's point of view, this manifestation of 'civil society' was a lover which played hard to get. Although its leaders were prepared to talk to the Bank, and even to take the money reluctantly dispensed by the government under one of the ERP loan conditions, they had no intention of abandoning their longstanding opposition to 'structural adjustment', or of relinquishing the political capital which they had manufactured from their more pointed opposition to 'land reform'. And they were certainly not inclined to pursue the dialogue on 'poverty alleviation' which the Bank regarded as the most important item on their agenda. Although there is some dispute over the amount and the sources of the funds which were made available to the Watch Council over the months which followed its formation, there is little doubt that some of this money was used to oil the wheels of an election campaign which resulted in victory for Peti Lafanama and a number of like-minded 'independent' candidates. Nor was it any coincidence that most of these victories were achieved in highland

electorates, where many voters had been previously stirred into violent demonstrations against the Bank's devious plans to 'steal their land'.

This is not to say that the merits of structural adjustment were the dominant campaign issue, in these or any other electorates. The populist candidates associated with the Watch Council seem to have garnered a lot more votes from their opposition to the 'corruption' of the Chan government, as manifested in the so-called 'Sandline mercenary crisis' which erupted in April 1997, following the engagement of a British 'security' company to undertake a 'surgical strike' against rebel forces on the island of Bougainville (see Dorney 1998).¹⁰ On the other hand, there were few votes to be won from a sympathetic portrait of the Bank's efforts to control the government's more wayward endeavours, even in matters of forest policy, and populist candidates were rather more likely to portray the Bank and the government as a single, Janus-faced oppressor.

All this lends a certain touch of irony to the claim made in the Bank's ERP Implementation Completion Report (1997a: 7), that part the program's 'success' was due to 'considerable pressure from a broad based alliance of civil society as well as donors'. Stranger still, that section of 'civil society' which entered Parliament for the first time in July 1997, on the back of a campaign against government corruption and structural adjustment, then decided to throw in its lot with the remnants of the former ruling coalition to form a new government under the previous Opposition leader, Bill Skate. In doing so, their own doubts about structural adjustment seem to have evaporated, along with the support of those remaining members of the 'advocacy sector' who stood by their belief that no politician can be trusted. Whatever the state of its 'broad based alliance', Bank officials certainly had some reason to believe that the presence of 'populist' elements in the new government provided a 'window of opportunity' for further progress to be made in the reform of forest policy – not least because the new Prime Minister and the newly appointed Minister for Forests both represented electorates in which the log export industry had no established interest.

¹⁰ Nothing more has been heard of the Watch Council since its leaders became embroiled in the stand-off between the government and senior Defence Force officers after the latter had refused to cooperate with the mercenaries.

CHAPTER 4

ADJUSTMENT AND REFORM UNDER THE SKATE GOVERNMENT

In August 1997, following the installation of the Skate government, World Bank staff set about negotiating a detailed Policy Matrix for the second phase of PNG's Structural Adjustment Program, which later came to be known as the Social and Economic Development Program (SEDP). Shortly afterwards, the Bank's regional Forestry Adviser, Jim Douglas, arrived in PNG to consult with national stakeholders on the design of a new Forestry and Conservation Project (FCP). In November, the Bank submitted a Project Concept Document to the GEF, indicating that the total cost of this project would be US\$59 million over a period of eight years, and asking the GEF to contribute \$17 million towards this total. Of the remainder, \$12.5 million was to be provided as a loan from the Bank to the PNG Government, while \$29.5 million was to be 'co-financed' by other donors.

A revised version of this document was circulated to national stakeholders for their comment, and formed the basis of a pre-appraisal mission, led by Jim Douglas, which arrived in February 1998. At the beginning of August, Douglas returned to PNG with a more detailed Project Appraisal Document, which formed the basis for further consultation with national stakeholders and other members of the international donor community. These discussions led to further revisions of the FCP design, which were presented to the GEF in September 1998, and then revealed to national stakeholders in October.

However, no further progress was made towards the implementation of this project during the first half of 1999, because the Skate government had failed to reach agreement with the Bank on the conditions attached to the SEDP loan, whose first tranche should have been disbursed in June 1998. While the Bank originally saw the government's acceptance of the FCP as one of the conditions attached to the SEDP, the government subsequently sought to 'turn the tables' on the Bank by refusing to countenance the FCP until the Bank agreed to release the first tranche of the bigger loan. In this chapter, we shall try to explain how the parallel negotiations of the SEDP and the FCP could have produced this rather paradoxical result.

The Social and Economic Development Program

The Bank regarded the SEDP as a natural progression from the ERP, and estimated the value of the financial assistance package (including the IMF stand-by component) at approximately US\$250 million over a two-year period, as compared with the amount of \$190 million which had been disbursed under the

ERP. The Bank's own contribution would be a loan of \$90 million over the two years. The major purpose of the exercise (and most of the financial assistance) was to cover projected shortfalls in the 1998 Budget. During the course of 1997, the size of the projected deficit expanded with the increasing severity of the drought which afflicted much of the region, and which threatened a substantial reduction in PNG's export earnings from both the mining and agricultural sectors of the economy.

The SEDP Policy Matrix mooted by Bank staff in September 1997 contained no less than 171 conditions. Sixty-eight of the conditions were to be implemented prior to Board presentation (then thought likely to occur in late 1997 or early 1998), and 103 before release of the second tranche. Twenty-six of these conditions were directly related to the 'forestry and conservation' sector (see Box 4.1). Official correspondence shows that the principal architect of this document, Pirouz Hamidian-Rad, had already begun the process of negotiating the 'new deal' with government officials during the final months of the Chan's term of office, when he was also responsible for compiling the Implementation Completion Report on the ERP in his new capacity as leader of the PNG 'country team' operating under the regional Country Director.

Box 4.1: Forestry and conservation conditions in the original SEDP Policy Matrix.

Conditions to be met before release of first tranche

60. Introduce independent inspection of all aspects of proposed and ongoing forest operations, funded by operators under levy or other arrangements.
61. Introduce significant performance bonds for new timber operations.
62. Provide adequate funding for the Forest Authority in 1998 equivalent to 1997 in real terms.
63. Secure full funding for independent external surveillance of log exports for 1998 and 1999.
64. Convene [National Planning Office] inter-departmental land use and planning committee to perform national planning functions.
65. Conduct comprehensive review of landholder participation in resource use decision making. Determine an adequate process for landholder representation and participation prior to allocation of resource areas to FMA or other production uses.
66. Gazette Fairness [of] Transactions Act of 1993 to allow landowner victims of unfair contracts to have court reviews of contracts.
67. Submit an action plan (for an Environmental Protection Agency ???) [sic] with priorities, activities and budgets to Departments of Finance and Personnel Management and to Parliament.
68. Adequately fund Department of Environment and Conservation to carry out agreed priority functions until new EPA is in place.

Box 4.1 (continued).**Conditions to be met before release of second tranche**

146. Government to initiate independent forestry field inspection operations. Inspection results to go to Environmental Protection Authority, Forest Industry, Forestry Board, landholder groups and public.
147. Implement recommendations of the logging cost of production study, including tax and incentives structure for round log exports and processed logs.
148. Initiate a consultative process in which landowners will be advised of land use options and views recorded in advance of specific negotiations of FMA or other resource projects.
149. Expand roles/functions of Forest Authority to include other areas of forest management. Amend Forestry Act and regulations through technical assistance.
150. Begin implementation of new forestry consultation arrangements as per objectives and in line with results of landholder participation review.
151. Implement recommendations of the landowner benefit study, including royalty rates with shortfalls from 1 July 1996 to be collected.
152. Implement recommendations of the logging cost of production study, including tax and incentives structure for round log exports and processed logs.
153. Review environmental legislation and regulations so as to permit establishment of Environmental Protection Authority mandated to determine environmental acceptability of resource projects prior to approval by line Ministries. Consultancy to identify [terms of reference] to design necessary legislative change, determine basic core functions of EPA and determine optimal funding arrangements.
154. Secure Cabinet approval of EPA, designated as a Statutory Body with its own board and cabinet Minister. Submit EPA legislation to Parliament.
155. Encourage/support alternative development options that are environmentally friendly, e.g. eco-forestry, sustainable logging and eco-tourism to minimise forest depletion and pollution.
156. Develop procedures/regulations to protect and grant legal status to identified ICAD [integrated conservation and development] sites and other community initiated conservation areas.
157. Introduce new legal basis for certifying logging industries to be certified by independent and performance based entities.
158. Set up a Conservation Transition [sic] Fund. Implement the program for an unspecified number of acres in 3 identified potential forest areas.
159. Establish a Government environmental levy based on user pays principles to recover resource project assessment. Formulate a budget transfer strategy to cover other operating expenses.
160. Develop capacity within [National Planning Office] interdepartmental land use committee to identify conservation areas which will allow protection of bio-diversity in 25 per cent of each forest type.
161. Require Forestry Board's approval for any large scale project involving significant clear felling of forests, such as agricultural conversions, before project startup.
162. Develop capacity to consult and negotiate with landowners to implement protected area management.

Source: GoPNG 1997c.

An initial assessment of the proposed Policy Matrix was produced by the Finance Department's Economic Policy Unit in October 1997, and then circulated to relevant line agencies for their additional comments. This document divided the proposed forestry and conservation conditions into three categories:

- those which were unacceptable (62), or potentially unacceptable (68), because of the impositions which they made on the 1998 Budget;
- those which were 'acceptable in principle', pending consultation with the relevant line agencies (61, 64, 65, 161), or with other donor agencies (63); and
- all the rest, which were thought to need more detailed articulation before such consultation could be meaningful.

The PNGFA (GoPNG 1997b) was rather less hesitant in its endorsement of the Policy Matrix, but still thought that Conditions 155 and 157 were far too vague, and supported the Finance Department in its contention that the government could not possibly commit itself to the recommendations of studies which had not yet been completed (through Conditions 147 and 151). The PNGFA was also wary of Conditions 64 and 160, firstly because of the perceived need to cut down on the number of inter-departmental committees, and secondly because the proposed protection of a fixed percentage of each forest type took no account of 'resource ownership issues'. Condition 66 could not be supported until the Act had been sighted and assurance obtained that all parties would be treated equally. Likewise, Condition 158 could not be supported until questions of coordination and access had been addressed. Otherwise, the PNGFA endorsed all the conditions relating directly to the forestry and conservation sector, although it claimed that performance bonds (Condition 61) were already being imposed on new timber projects, and that its own roles and functions (Condition 149) were already broad enough to cope with all relevant aspects of forest management. It was also noted that the preservation of the PNGFA's budget (Condition 62) had been a condition of the ERP with which the government had signally failed to comply. Finally, the PNGFA expressed some concern that there were no conditions which would ensure gazettal of the Forestry Regulations or guarantee the continued closure of the 'backdoor route for access to forest resources' which had been addressed by NEC Decision 113/96. This last request was especially pertinent, because Cabinet had just made another Decision (59/97) which had partially reopened the loophole.

The DEC (GoPNG 1997a) expressed its general support for all the conditions which related to its own mandate, but expressed some concern about the role to be played by NGOs under Condition 158. The DEC was also at some pains to emphasise its support for a properly funded Environment and Conservation Authority, and queried the Finance Department's opposition to Condition 68 in light of the budget cuts which had previously been imposed on the DEC. Indeed, some departmental officials maintain that Hamidian-Rad was one of the few Bank staff who was prepared to accept the argument that their purported lack of institutional capacity was the consequence, rather than the cause, of the continual decline in their budget allocations from the Department of Finance. This is thought to explain his support for the proposal to transform the

DEC into a self-funding statutory authority – hence Conditions 67, 68, 153, 154 and 158 in the Policy Matrix. The specific items of forest policy reform for which the DEC sought Bank support at this stage were:

- a requirement for DEC to undertake an initial environmental assessment of the impact of logging before the PNGFA negotiates a Forest Management Agreement with local landowners;
- the PNGFA to be bound by formal agreements with the DEC to set aside high-priority conservation areas within each of the areas covered by such an agreement;
- revision of the 35-year standard cutting cycle (as specified in the earlier ERP condition) to take account of local variations in rates of forest regeneration;
- a requirement for logging operators to accept international standards of timber certification; and
- imposition on logging operators of an environmental levy with an estimated value of 40-50 toea per cubic metre.

Although the Bank was committed to the maintenance of its dialogue with ‘civil society’, and was therefore willing to debate the latest forest policy conditions with environmental groups in PNG, some of the more radical environmental advocates regarded the change of government as an opportunity to restate their longstanding demand for some sort of log export ban, and accused the Bank of helping the PNGFA to ‘forget’ the promises made in the National Forestry Development Guidelines (see Chapter 2). Bank staff were not prepared to abandon their longstanding opposition to such a policy measure, and some members of the national NGO community therefore refused to engage in further discussion with them.

Environmental advocates in the United States took a rather more conciliatory line, submitting detailed written comments on the relevant sections of the draft Policy Matrix. Their main contention was that Condition 148 could not be expected to produce any meaningful outcomes unless the government agreed to revoke the National Forest Plan produced in 1996 and to impose a moratorium on the negotiation of new Forest Management Agreements until proper standards and mechanisms had been developed for involving local communities in a fully integrated land use planning process (Taylor, Atkinson and Cortesi 1998). The international NGOs had apparently decided that a moratorium on new concessions would be more acceptable to the Bank, and perhaps even to the PNG Government, because this measure had already been adopted by the government back in 1990, when it had received the Bank’s tacit support. Although this measure had not been properly implemented in the two years preceding the gazettal of the new *Forestry Act*, a genuine moratorium might well achieve the same result as the imposition of a deadline for the cessation of raw log exports (Cortesi and Barclay 1998).

The Forestry and Conservation Project

It seems fairly clear that the FCP was originally conceived as the institutional mechanism through which the Bank intended to organise donor support for the PNG Government to meet at least some of the 'forestry and conservation' conditions which were to be attached to the SEDP Policy Matrix. The FCP's 'central objectives', as described in the Project Concept Document, were:

to improve the environmental sustainability of forest harvests; and to implement an effective strategy to promote conservation areas and small-scale sustainable-use enterprises, primarily through empowerment of landowners to decide upon and access financing for such activities (World Bank 1997b: 3).

Four project components were intended to achieve these aims:

- The 'Landowner Forest Decision-Making' component (costing US\$6 million) was to encourage resource owners and their representative organisations to opt out of proposals for unsustainable development.
- The 'Sustainable Natural Forest Management' component (costing \$8.5 million) was to give some extra teeth to the Logging Code of Practice by developing new forms of control over the performance of the logging companies, including the engagement of an 'independent third party to monitor forest logging from the tendering process for new operations through all aspects of existing timber operations with results reported to all stakeholders' (ibid.: 7).
- The 'Environmental Protection' component (costing \$5 million) was to build on the foundations laid by the NFCAP DEC Strengthening Project, by transforming the Department of Environment and Conservation into an Environmental Protection Authority, partially funded through the imposition of environmental levies.
- The 'Landowner Conservation Financing Mechanism' component (costing \$39.5 million) was to provide additional financial support for the Conservation Trust Fund (CTF), whose establishment had been one of the objectives of the Biodiversity Conservation and Resource Management Program, and this component alone was to account for \$15 million of the \$17 million requested from the GEF, which had already funded that earlier program.

The following 'indications of borrower commitment and ownership' were stated in the Project Concept Document:

Over recent years, the Bank has established a comprehensive dialogue with GOPNG, especially the Forests Authority. The Minister for Forests supports the terms of the SEDP loan, and also a forestry and conservation project of the nature described in this document. There is a widespread realization in government that improved forest management, conservation and environmental protection are an important component of a sustainable and ultimately successful development process. This has been expressed as a primary

component of the country's medium-term development strategy, and in requests for Bank assistance. An endorsement letter requesting GEF support has been received from the National GEF focal point (ibid.: 12).

At the same time, the Project Concept Document sounded several notes of caution about the capacity of government agencies to achieve the project's central objectives. The PNGFA was still seen to have a 'limited ability to actually enforce sustainability guidelines', while the DEC was 'highly constrained' in its capacity to establish conservation areas or carry out its other core functions (ibid.: 5). Nor would further attempts to strengthen these two institutions be sufficient to achieve the 'empowerment of landowners' which was considered to be a central feature of the project. Neither could be entrusted with implementation of the 'Landowner Forest Decision-Making' component, while the CTF would have to be 'independent of government, and managed by trustees representative of civil society and of high public standing' (ibid.: 10).

Annex 3 of the Project Concept Document contained a brief discussion of the possible need to use an Adaptable Program Lending framework, dividing all project activities between an initial three-year phase and a second five-year phase, in order to ensure that 'significant conditions are met prior to complete disbursement'. Two separate groups of conditions were envisaged. Five of them, described as 'major policy and fiscal reforms for the forestry sector', were to be included amongst the conditions of the SEDP loan, while the other seven, described as 'supporting regulatory and institutional reforms' were to be attached to the loan component of the FCP itself (see Box 4.2). In the analysis of 'critical risks' for the FCP, these two bundles of conditions were described as measures designed to minimise the 'high risk' that existing landowner company representatives would 'undermine new participatory arrangements', and the 'modest' risk that 'inappropriate changes' would be made to forest sector policy. The document recognised three other 'modest' risks:

- that the forest industry would fail to comply with the 'conditionality/regulatory framework';
- that the conservation financing mechanism would not receive adequate support; and
- that delays might occur in the establishment of 'landholder participation mechanisms'.

These additional risks were to be addressed by securing the commitment of other stakeholders – donors, NGOs, and the private sector (ibid.: 15-16).

Box 4.2: Conditions attached to the Forestry and Conservation Project, November 1997.

1.	Conditions attached to the first tranche of both the SEDP loan and the FCP loan
1.1	Commitment to the principle of independent inspection of forest operations.
1.2	Gazettement of the Fairness of Transactions Act (to facilitate landowner legal recourse for contract disputes).
1.3	Commitment to create an effective environmental protection institution.
1.4	Commitment to facilitate the development and financing of landowner-based resource use options.
1.5	Adequate budgeting and fiscal support for environmental protection functions.
2.	Conditions to be met during the period of the FCP loan
2.1	Establishment of institutional capacity and appropriate regulations to support independent inspection of forest operations, introduction of performance bonding and incentive mechanisms.
2.2	Commitment of training facilities and human resources to Logging Code of Practice training.
2.3	Establishment of necessary institutional capacity and regulatory reform to facilitate effective implementation of the Development Options approach to landowner counseling and representation.
2.4	Gazettement of necessary laws and regulations to facilitate establishment of an effective environmental protection agency, and its fee-based mechanism.
2.5	Gazettement of necessary laws and regulations to allow Incorporated Land Group mechanisms to function effectively.
2.6	Gazettement of all necessary laws and regulations to support establishment of the Conservation Financing Mechanism.
2.7	Adequate budgeting and fiscal support for the National Forest Authority.

Source: World Bank 1997b: 9.

The next stage in the design of the FCP began with the arrival of a Preappraisal Mission in February 1998.¹ The mission's arrival coincided with the appointment of Thomas Nen as the new Managing Director of the PNGFA, and Wari Iamo as the new Secretary of the DEC, which was itself apparently downgraded to the status of an 'office' before the mission had returned to Washington. Their Aide Memoire (World Bank 1998b) recorded a number of major issues which had arisen in their consultation with national stakeholders:

- The PNGFA and the logging companies drew attention to the drastic decline in raw log prices, and the possible need for some short-term tax relief to be granted to the industry. The Bank was prepared to countenance this proposal on the understanding that it could only be an interim measure designed to

¹ Aside from Jim Douglas, the mission comprised three other Bank staff (Anita Gordon, Glen Barry, and Kathy Mackinnon) and a consultant from the WWF (Rod Taylor).

maintain the level of government revenues from the industry in the longer term, and that the Bank's prior approval would be included as a condition of the SEDP loan. At the same time, the mission was apparently pleased to note that some government representatives saw the downturn in logging activity as an 'opportunity to reconsider some options for the use of the forest resource'.

- The Bank's attention was drawn to NEC Decision 59/97, which appeared to re-open the way for large-scale 'agricultural' projects to be entirely financed out of the proceeds of large-scale logging conducted under a single Timber Authority. The Bank's response was to propose that this loophole should be closed down again by means of another SEDP loan condition.
- A third loan condition would be the amendment of Section 19 of the *Forestry Act*, which still allowed the Minister to delegate the powers of the National Forest Board to his nominee, and which was felt to be inconsistent with the principles agreed between the Bank and the government back in 1996. The Aide Memoire gave no explanation of the Bank's failure to insist on this amendment at that time.
- The government's apparent intention to downgrade the DEC raised obvious problems for the design of the FCP, as well as for the status of the DEC Secretary as a member of the National Forest Board. The mission was told that a Cabinet submission was about to be made for the establishment of a National Environment and Conservation Authority, but this only added to the level of uncertainty. Whatever the future status of the DEC, the mission still considered that its present range of functions were well beyond its capacity, and a further SEDP loan condition would still be required to deal with this problem.
- There was also some uncertainty about the institutional arrangements for implementation of the FCP's 'Landowner Forest Decision Making' component, given the lack of capacity in all government agencies which might have taken the lead role. The Bank's proposal to establish a small consultancy unit answerable to the Secretary for Finance was conceived as a way of postponing the need for a more expensive capacity-building sub-component.
- The Bank tried to answer the concerns which the DEC had previously raised about the risk that the CTF would absorb aid funding which might otherwise be made available to the Department for its own projects. The Bank maintained that the fund would 'take no role in policy generation or priority setting for major conservation and environmental objectives', and was rather intended to complement donor-funded activities within the Department. Some DEC officials remained sceptical of this assertion.
- Finally, the Bank noted the problems which had arisen from lack of consultation between donor agencies in the forestry and conservation sector, and while it might be able to resume its erstwhile role as a coordinating agency, much would depend upon the government's willingness to initiate the second phase of the NFCAP. There was even a suggestion that the FCP could

not begin to be implemented until this problem had been addressed, but this was not put forward as an SEDP loan condition.

The Seven Million Kina Man

Pirouz Hamidian-Rad did not accompany the Preappraisal Mission, because he had just been transferred to a new position in a section of the Bank which dealt with the Central Asian Republics. In the 1998 Budget, which, like the 1995 Budget, had been delayed by four months and was finally brought down in March, the PNG Government announced its expectation that the first (\$60 million) tranche of the SEDP loan would be disbursed within three months. Within those three months, the Prime Minister negotiated a deal with Hamidian-Rad, whereby the latter's consultancy company would supply economic advice to the PNG Government, reportedly at a total cost of K7 million, over a period of two years starting 1 June (*Post Courier*, 11 September 1998). The World Bank considered that the 'K7 Million Man' (as he soon came to be known) had breached the terms of his previous contract of employment, and refused to persist in its appraisal of the SEDP loan until he was removed from his new position as the government's Chief Economic Adviser. The Prime Minister would not accede to this demand, and the resulting stalemate lasted until his government collapsed in July 1999.

In June 1998, the Secretary of what was now the Department of Treasury and Corporate Affairs advised his counterparts in the NFS and DEC that there were now only forty conditions attached to the SEDP loan, of which four first tranche conditions and three second tranche conditions were directly relevant to their respective spheres of activity. At this stage, it was not yet clear that the government would fail in its attempt to persuade the Bank to remove the '41st condition' which entailed the removal of its Chief Economic Adviser. So the bureaucrats proceeded to prepare a detailed response for Cabinet's consideration, without much apparent input from the man who had previously given them even more conditions to think about.

Given the volume of discussion on the substance of the FCP, which was still continuing, NFS and DEC officials found few surprises in the seven forestry and conservation conditions attached to the new Policy Matrix. In respect of the first tranche conditions, the NFS (GoPNG 1998a) was annoyed to find that the Bank was still insisting on gazettal of the *Fairness of Transactions Act*, despite its previous protests, and presumably under pressure from the NGO community. The NFS also felt that the Bank was squeezing the forest industry too hard with its insistence on the imposition of 'significant performance bonds' and extra penalties for non-compliance with standards that were still being developed. In respect of the second tranche conditions, the NFS was somewhat surprised to find that the Bank was still insisting on retrospective collection of the Project Development Levy (with effect from July 1996), despite the receipt of legal advice that this could be problematic. On the other hand, there was disappointment with the Bank's failure to insist on the maintenance of the

PNGFA's budget at a level which would cover the ongoing cost of the log export surveillance contract with SGS.

Some DEC officials might have been disappointed with the removal of any reference to the corporatisation of their department or the imposition of an environmental levy in the second tranche condition which required the gazettal of new environmental planning legislation. But they were now resigned to the fact that their complaints about the design of the FCP were falling on deaf ears. This was partly because the Bank had concluded that these officials had little support from other sections of the bureaucracy. In any case, further discussion of the SEDP Policy Matrix was soon brought to a halt when the Bank advised the national stakeholders in the forestry and conservation sector that the presence of the government's Chief Economic Adviser had upset the applecart.

The FCP design team soldiers on

The '41st condition' did not prevent Bank staff from persisting in their appraisal of the FCP, but it may have slowed them down a little. Successive drafts of the Project Appraisal Document were shunted backwards and forwards between Washington and Port Moresby, but Jim Douglas did not return to the country until the end of July. The draft which he brought with him contained a good deal more detail on the design of specific project components, and some interesting amendments to the proposal contained in the earlier Project Concept Document, most of which reflected the concerns which had been raised with the Preappraisal Mission, and in subsequent correspondence from various national stakeholders. The 'central objective' was now:

to strengthen the capacity of government and non-government entities to more sustainably manage and conserve Papua New Guinea's (PNG) forest resources in order to contribute to the well being of forest owners on a long-term basis (World Bank 1998c: 2).

There was no change in the relative significance of each project component, as measured by its projected cost, but some alterations were made to the institutional scenery envisaged in their description:

- The 'Landowner Forest Decision-Making' component placed even more emphasis on the Development Options Study process prescribed under the *Forestry Act*, and rather less emphasis on Incorporated Land Groups as decision-making bodies. Although such groups were still described as the 'basic unit for landowner organization', allowance was made for the need to strengthen 'Landowner Representative Mechanisms' at other levels and perhaps by other means. Two separate sub-components called 'Development of Policy to Permit Clan-Based Conservation' and 'Establishment of Large Conservation and Preservation Areas' were amalgamated into a single sub-component called 'Land-Group Based Conservation and Resource Management Areas' (Annex 2, pp. 1-6).
- The 'Sustainable Natural Forest Management' component was renamed the 'Sustainable Forest Management' component, apparently because it had

acquired a new sub-component called 'Plantation Activities', which was to be concerned with the feasibility of developing tree plantations on degraded land. Three new sub-components were added with a view to encouraging 'community forestry' and developing standards for timber certification. On the other hand, a previous sub-component called 'FMA Conservation Set Asides' was absorbed into the 'Forest Planning' sub-component (Annex 2, pp. 10-15).

- The 'Environmental Protection' component was revised to eliminate any reference to the transformation of the DEC into an 'Environmental Protection Authority', or to the funding of this new body through the imposition of 'environmental levies'. The focus of this component was shifted towards the development of 'environmental assessment and monitoring methodologies' within the existing institutional framework. A new sub-component was added for 'Monitoring by Local Communities' (Annex 2, pp. 15-16).
- The 'Landowner Conservation Financing Mechanism' component, now simply called the 'Conservation Trust Fund' component, retained the basic design elements specified in the Project Concept Document, with a good deal of attention now being paid to the specific problems of establishing and managing this institution (Annex 2, pp. 6-10).

It was now envisaged that the PNG Government would contribute US\$4 million towards the cost of the project, while another \$1.5 million would be made available from the balance of the AusAID NFCAP Trust Fund administered by the Bank. AusAID was also considered to be a prime candidate for the remainder of the co-financing requirement, which still amounted to \$25 million.

In light of the changes which had been made to the 'Environmental Protection' component, the Project Appraisal Document now had rather less to say about the DEC's lack of institutional capacity. Responsibility for implementing the 'Landowner Forest Decision-Making' component was now assigned to a 'Landowner Development Options Unit' to be housed within the Office of National Planning and Implementation, which would operate as a 'relatively autonomous unit' with linkages to the other government agencies involved in the FCP, and also to the CTF. A separate annex (Annex 4), attached as a 'Design Framework Document' for the CTF, included a rather optimistic timetable for its board of management to be established by September 1998.

The only change made to the 'indications of borrower commitment and ownership' was the deletion of any reference to PNG Government support for the terms of the SEDP loan. Although some passing reference was made to the SEDP loan conditions (World Bank 1998c: 6), these were not itemised in the Project Appraisal Document. On the other hand, the number of conditions attached to the loan component of the FCP was raised from seven to eleven, and these were divided between five 'effectiveness conditions' and six 'proposed dated covenants' for measures to be adopted by the PNG Government by 30 June 1999 – four months after the date on which the project was now expected to begin (see Box 4.3). This elaboration of the FCP's conditionality was partly due

to a corresponding reduction in the number of conditions attached to the SEDP loan, and perhaps also due to the possibility that the FCP might proceed in the absence of that other loan, or else to the Bank's desire to keep these conditions firmly planted under the government's nose. At the same time, the Bank seems to have accepted some of the arguments advanced by the NFS in its comments on the latest SEDP Policy Matrix, because there was no further reference to the *Fairness of Transactions Act* or to retrospective application of the Project Development Levy.

Further changes were then made to the Project Appraisal Document in light of the views which the latest Appraisal Mission had collected from national stakeholders and other members of the donor community. These were primarily intended to streamline a project design which had become increasingly unwieldy because of the broad range of 'desirable activities' which various members of the audience had volunteered for inclusion.

By September 1998, the FCP's 'central objective', which was 'to strengthen the capacity of government and non-government entities to more sustainably manage and conserve PNG's forest resources', had now been separated from its other 'key objective', which was 'to improve the quality of life of people living at the local level' (World Bank 1998d: 3). It seems that Bank staff had concluded that attainment of the first objective would not necessarily lead to attainment of the second objective, as had been implied in earlier drafts of the Project Appraisal Document. At the same time, the project implementation period had been reduced from eight years to six and a half years, and the inception date had been postponed to July 1999.

Some effort had been made to reduce the complexity of the project by removing ten of the twenty-one sub-components identified in the earlier draft:

- Eight of the earlier sub-components in the 'Sustainable Forest Management' component were amalgamated to make four new sub-components, while the previous sub-component called 'Certified Forestry Sector Building' seems to have been eliminated altogether.
- The five sub-components of the 'Conservation Trust Fund' component were likewise reduced to a 'Commencement Activities' sub-component and an 'Endowment Phase' sub-component.
- The sub-component on 'Forest Management and Conservation Educational Materials' was removed from the 'Landowner Forest Decision-Making' component. The sub-component on 'Further Development of New Environmental Regulatory Framework' was removed from what was now called the 'Environmental Assessment and Monitoring' component.

Box 4.3: Conditions attached to the loan component of the FCP, August 1998.

1.	Effectiveness Conditions
1.1	Introduce regulations to require logging companies awarded new licenses or permits to post significant performance bonds, to be forfeit on evidence from independent inspection of non-compliance with all provisions of the Forestry Act, the Logging Code of Practice, and gazetted environmental assessment and clearance provisions.
1.2	Establish a satisfactory legal framework and bases, including national standards for independent inspection of forest operations and reporting of results to government agencies, the private sector and civil society.
1.3	Repeal any provision in the Forestry Act, including Section 19, which allows the Minister for Forestry to delegate the authority of the Forestry Board to an individual of his choice.
1.4	On the matter of clearance and approval of agricultural conversion and infrastructure projects which imply clearance of significant areas of natural forests: rescind NEC Decision No. 59/97 and reinstate and gazette NEC Decision No. 113/96 in its place, ensuring also that the Forestry Board must approve the issue of timber permits or licenses to allow such clear-felling prior to project approval.
1.5	Cabinet endorsement of the Conservation Trust Fund as a proposed conservation financing mechanism.
2.	Proposed Dated Covenants
By June 30, 1999, GoPNG will introduce the following measures:	
2.1	Gazette the legal regulatory basis requiring the DEC to assess and clear the environmental acceptability of natural resource projects prior to their further processing or approval by line ministries.
2.2	Establish institutional capacity and appropriate regulations to support independent inspection of forest operations, introduction of performance bonding and incentive mechanisms.
2.3	Establish necessary institutional capacity and regulatory reform to facilitate effective implementation of the development options approach to landowner participation in land use decision-making and their involvement in projects through appropriate representative mechanisms.
2.4	Enact necessary laws and regulations to facilitate establishment of an effective environmental protection agency, and its fee-based mechanism.
2.5	Gazette necessary laws and regulations to strengthen capacity for land groups to form legal entities, to function effectively, and to secure voluntary designation of their natural resources as conservation areas.
2.6	Enactment of all necessary laws and regulations to support establishment of conservation areas.

Source: World Bank 1998c: 16.

The streamlining of the project had the effect of reducing the total baseline cost from US\$60 million to just over \$54 million. Most of these savings (about \$4.5 million) were made in the CTF component. The PNG Government contribution to the cost had been reduced from \$4 million to \$2 million, while the World Bank loan component had been raised from \$12.5 million to \$13.4 million. This meant that the rest of the co-financing requirement had been reduced from \$28.5 million to \$22.9 million (see Table 4.1).

Although the greater part of the GEF grant would be directed towards the CTF component (\$5 million for the first phase and \$10 million for the second phase), this component would only account for \$600,000 (4 percent) of the World Bank loan (World Bank 1998d: 9). As a result, this component would account for \$20 million out of the \$22.9 million required in additional co-financing. Rather less emphasis was now placed on AusAID's potential contribution to the CTF. AusAID was seen as one of several donor organisations which might each contribute a maximum of \$5 million (Annex 4, p. 38), while 'carbon sequestration initiatives and environmental levies' were also mooted as 'innovative funding sources' (*ibid.*: 7).

No changes were made to the statement of 'borrower commitment and ownership', though it was noted that the PNGFA had recently requested the Bank's support 'in responding to the downturn in commercial forestry by providing assistance in broadening the type and scope of forest management activities, including capitalizing on the benefits of standing forests' (*ibid.*: 5). The number of conditions attached to the loan component also remained the same, but some conditions had been replaced by others, and changes had been made to the wording of those which remained from the earlier draft (see Box 4.4).

Here again we may observe the growing influence of the PNGFA, and the declining influence of the DEC, over the total package of conditions, because the former had now succeeded in inserting the funding guarantees which it had been seeking for several months, whereas the latter could no longer find any conditions relating to its own legal status or the development of new legislation for conservation areas. Indeed, some senior DEC officials were sufficiently upset by the Bank's continual 'back-tracking' on measures that were intended to strengthen their role and status in the design of the FCP that they endeavoured to persuade their Secretary to withhold his approval of the whole package. A letter to this effect was certainly despatched to Washington in September 1998 (GoPNG 1998b), and the responsible officials still maintain that the Bank was obliged to use a previous letter in order to persuade the GEF Board that it had the full support of all relevant government agencies.

Table 4.1: Cost estimates for PNG Forestry and Conservation Project, October 1998.

Component	Cost (US\$m)	% base cost
LANDOWNER FOREST DECISION-MAKING		
Development Options Study	2.76	5
Strengthening of Landowner Representative Mechanisms	1.80	3
Land-Group Based Conservation & Resource Management Areas	1.12	2
Sub-total	5.71	11
CONSERVATION TRUST FUND		
Commencement Activities	4.00	7
Endowment Phase	31.53	58
Sub-total	35.53	66
SUSTAINABLE FOREST MANAGEMENT		
Improved Forest Operations, Inspection and Monitoring	2.32	4
Forest Planning	1.10	2
Post-Harvest Forest Management and Plantations	2.94	5
Sustainable Community Forestry	2.34	4
Sub-total	8.70	16
ENVIRONMENTAL ASSESSMENT AND MONITORING		
Environmental Assessment, Monitoring and Regulation	3.20	6
Environmental Monitoring by Local Communities	0.88	2
Sub-total	4.08	8
SUMMARY		
Total Baseline Costs	54.02	100
Contingencies	1.29	2
Total Project Costs	55.31	102
FINANCING		
Global Environment Facility Grant	17.04	
World Bank Loan	13.38	
PNG Government	2.03	
Co-Financing	22.87	
Total	55.31	

Source: World Bank 1998d, Annex 3.

Box 4.4: Conditions attached to the loan component of the FCP, October 1998.

1.	Effectiveness Conditions
1.1	Introduce regulations to require logging companies awarded new licenses or permits to post performance bonds, set at a level of not less than 40% of average annual operating costs for the operation in question, at minimum cut production, which would be subject to forfeiture following evidence from independent inspection of non-compliance with at least two major provisions of the reduced list of provisions presently applied from the Logging Code of Practice.
1.2	Establish institutional arrangements and procedures for operation of independent monitoring services to augment monitoring and enforcement activities of the Forests Authority.
1.3	Gazette and operationalize the legal regulatory basis requiring the DEC to assess and clear the environmental acceptability of natural resource projects prior to their further processing or approval by line ministries.
1.4	Legally establish the Conservation Trust Fund in a manner satisfactory to the Bank, and have an interim Board of management for the Trust Fund in place.
1.5	Repeal Section 19 of the Forestry Act, which allows the Minister for Forestry to delegate the authority of the Forestry Board to an individual of his choice.
1.6	On the matter of clearance and approval of agricultural conversion and infrastructure projects which imply clearance of significant areas of natural forests: rescind NEC Decision No. 59/97 and gazette in its place a new regulation which reproduces the provisions contained in Section A of a previous regulation, NEC Decision No. 113/96 which ensures that the Forestry Board must approve the issue of timber permits or licenses to allow such clear-felling prior to project approval.
1.7	The operational budget for the PNG Forest Authority will be maintained for the duration of the project at the 1997 (real) level. In November of each year, GoPNG will provide the Bank with estimates of allocations from the Budget to the Forests Authority, so that continued disbursement from the loan can be approved on evidence of continued Budget support for the FA.
2.	Proposed Dated Covenants
By June 30, 1999, GoPNG will introduce the following measures:	
2.1	Introduce budgetary or other measures to allow the cost of operations of a professional consultancy team to monitor log exports to be covered from a levy on log exports. In the interim period, the costs of this operation will be covered from a specific Budget allocation for this purpose.
2.2	Produce a manual of operations to direct the activities of the Conservation Trust Fund, acceptable to the Bank.
2.3	Establish a satisfactory institutional arrangement to promote the project design approach to landowner participation in land use decision-making and their involvement in projects through appropriate representative mechanisms, and develop a manual of procedures acceptable to the Bank to direct the operations of this group.
By June 2000 GoPNG will:	
2.4	Draft and submit to Parliament necessary laws and regulations to strengthen capacity for land groups to form legal entities, to function effectively, and to secure voluntary designation of their natural resources as conservation areas.

Source: World Bank 1998d: 19-20.

Enter Rosencrantz and Guildenstern

The July draft of the FCP Project Appraisal Document was discussed in the report of an AusAID Project Identification Mission (AusAID 1998a), which arrived in PNG in August 1998 to formulate plans for projects in the forestry and environment sub-sectors to be funded in the second five-year phase of the Australian tied aid program. The AusAID team thought that the Bank might still be overestimating the absorptive capacity of both the PNGFA and the DEC, and were concerned that the Bank appeared to be proposing a range of activities which had already been initiated by AusAID or by other donors, instead of concentrating its attention on those specific areas in which the Bank had a 'comparative advantage' within the donor community. For example, many of the training activities envisaged in the FCP's 'Sustainable Forest Management' component were already being undertaken in the AusAID Forestry Human Resources Development Project (FHRDP). Therefore, the Bank should consider shifting its own support for this component towards the 'Post-Harvest Forest Management' component, where it appeared to have grossly underestimated the scale and cost of an effective reforestation program for PNG.

The authors also questioned the Bank's presumption that AusAID would agree to co-finance the CTF without first examining the lessons learnt from the application of such financing mechanisms in other countries, and pointed out that AusAID had not even been consulted about the Bank's proposal to allocate the balance of its NFCAP Trust Fund to the FCP. In a thinly disguised plea for better donor coordination, they suggested that the FCP and the various projects identified in their own report (see Table 4.2) should all be placed under the umbrella of the long-delayed second phase of the NFCAP. And they took exception to the slow rate of disbursement which had been characteristic of the Bank's management of AusAID's substantial financial contribution to the first phase.

The draft report of the AusAID mission signalled Australian Government support for:

- two loan conditions (repeal of Section 19 of the *Forestry Act* and reversal of NEC Decision 59/97) which had already appeared in the August draft of the FCP Project Appraisal Document (see Box 4.3, Conditions 1.3 and 1.4); and
- two other loan conditions which had originally been part of the SEDP Policy Matrix, and which were now transferred to the loan component of the FCP (see Box 4.4, Conditions 1.7 and 2.1).

However, the AusAID team qualified its support for maintenance of the log export monitoring operation (Condition 2.1) by observing that log export taxes might have to be phased out under World Trade Organisation agreements, and cast doubt on the merit of two other measures which do not appear as loan conditions in any of the World Bank documents available to us:

Table 4.2: Projects and activities identified by AusAID Project Identification Mission, 1998.

Program/Project	Project component/Other activity
	Coordination of national forestry and protected areas planning
SUSTAINABLE FOREST MANAGEMENT	Increased capacity of PNG forestry organisations [Trade training and testing continued] [Support for in-service HRD and OD continued] [Training in forest monitoring continued] Sustainable forest management Introduction of new codes of practice Domestic processing and marketing Project management
SUPPORT TO HIGHLANDS FORESTRY IN PNG	Woodlot development Enhanced agroforestry Provincial level forest planning Rehabilitation of plantations and more effective reforestation More effective extension Support to NGOs working in the Highlands forestry sector Fire management Project management
OTHER ACTIVITIES UNDER NATIONAL FORESTRY PROGRAM	Independent review of the Logging Code of Practice Peri-urban and urban fuelwood needs Support to the Association of Foresters of PNG Support to the Forest Women Group Reduction of budget impacts of NFS Staff Housing Scheme Revision of Timber Handbook
NATIONAL CONSERVATION & DEVELOPMENT PROGRAM	Conservation planning and management strengthening NGOs conservation and development support Jimi Valley sustainable rural livelihoods and conservation Conservation industry promotion facility Program management
ORO PROVINCE INTEGRATED SUSTAINABLE DEVELOPMENT & CONSERVATION	Planning framework Economic development options Community development Supporting conservation initiatives Project management

Note: The 'Sustainable Forest Management Project' was revised (AusAID 1998b) to combine two projects identified in the original report of the Project Identification Mission (AusAID 1998a). Components in square brackets are continuations of the existing Forestry HRD Project.

Source: AusAID 1998a, 1998b.

- One was a demand for the NEC to require all permit holders to maintain the 50 cm diameter minimum girth limit on logs to be harvested, prohibit selective felling of only high value or large diameter logs, and withdraw any exceptions previously granted to these rules (which are already contained in the *Forestry Act*). The AusAID team was only prepared to support this measure pending the development of the Forest Authority's 'Variable Silvicultural Prescriptions'.
- The other measure was a demand for the NEC to require all permit holders to continue to make royalty payments to landholders based on their specified minimum level of log harvest, even in cases where the actual harvest levels had fallen below this level. The AusAID team did not support this measure because of its disruptive effect on the industry.

The fact that neither of these measures appeared as loan conditions in the revised draft of the FCP Project Appraisal Document (see Box 4.4) suggests that they had been mooted by the Bank's design team and then withdrawn in light of opposition from AusAID or other stakeholders. Although the revised draft was submitted to the GEF Board before completion of the AusAID mission's draft report, it appears that some of the points at issue had already been addressed through consultation between Bank staff and Australian government officials during the latter stages of the FCP's design. Indeed, it seems quite possible that AusAID's rather harrowing experiences with the NFCAP DEC Strengthening Project (Filer 1998: 262) might have been partially responsible for the alterations which proved so offensive to certain DEC staff.

In any case, the final report of the Project Identification Mission, produced in February 1999 (AusAID 1999), confined its attention to the seven 'Effectiveness Conditions' listed in the October draft of the FCP Project Appraisal Document (see Box 4.4). This meant that there was no further mention of the log export monitoring operation (Condition 2.1) or the sustainability of the export tax regime. The final report repeated its general support for five of the seven conditions proposed by the Bank, but:

- argued against a legal stipulation that forestry operations should be monitored by an 'independent' body (Condition 1.2), preferring that the PNGFA retain the right to decide whether or not to outsource this function; and
- made no comment at all on the establishment of the CTF (Condition 1.4), as if to emphasise the Australian Government's unwillingness to be dragged into the ranks of its putative funding agencies.

The final report made virtually no change to the list of projects and activities identified as worthy causes for the Australian aid program, except for the deletion of 'new codes of practice' from the Sustainable Forest Management Project.

The logging industry will not give up and go away

The Forest Industries Association took a rather different approach to the question of consultation with the Bank. In its own written response to the revised draft of the FCP Project Appraisal Document (PNGFIA 1998), the FIA maintained that the industry had never previously been consulted over the design of the project, and took great exception to the Bank's assessment that the industry's 'non-compliance with [the] conditionality/regulatory framework' was now one of the two major risks to the success of the project.

It is certainly interesting to note, in this respect, that the Project Concept Document had only considered this to be a 'modest' risk, and had also contained an assertion that '[t]he forest industry has been consulted and will continue to be engaged in the design and implementation of the project' (World Bank 1997b: 15). This assertion was notably absent from both versions of the Project Appraisal Document, suggesting that the Bank had abandoned or diluted its efforts to engage in such consultation. At any rate, the FIA regarded the Bank's new risk assessment as 'a feeble attempt to paint the industry as some sort of bully boy in order to generate an "us and them" division amongst stakeholders'. This portrait of stakeholder relationships was also seen to be evident in the inclusion of a representative of the mining industry, but not the forest industry, on the CTF Steering Committee, and the inclusion of 'consultants', but not the forest industry, on the FCP's 'oversight committee'.

As evidence of its own willingness 'to participate in the forest reform process where it is given the opportunity to do so', the FIA cited its membership of the National Forest Board, its involvement with the AusAID FHRDP, and even its acceptance of some of the Bank's loan conditions, most notably the regulation of agricultural and roadline clearing (Condition 1.6), the provision of adequate budgetary support to the NFS (Condition 1.7), and the maintenance of the log export monitoring project (Condition 2.1). On the other hand, other components and conditions of the FCP were seen as little more than opportunities for the appointment of another 'grave train' of foreign consultants:

- The proposal for 'independent' monitoring of forest operations would only mean 'the imposition of another layer of bureaucracy on the industry', which would also sideline the PNGFA and undermine the good work being done by the FHRDP to implement and modify the Logging Code of Practice.
- The CTF and Landowner Forest Decision-Making components would likewise have the effect of limiting the use of the Forest Management Agreement process to achieve sustainable forest management, when it should rather be strengthened and expanded.
- The imposition of environmental levies would simply add yet another financial burden to an industry already reeling from the effects of the forest revenue system previously imposed by the Bank, and would appear to be premised on the idea that the DEC (or its successor) would henceforth assume some of the functions currently performed by the National Forest Board.

The FIA thus sought to redraw the line between 'us and them' in such a way as to place itself on the same side of the fence as the PNGFA, and perhaps even AusAID, in opposition to the unholy (or at least uneconomic) alliance between the World Bank, the mining industry, and the environmental lobby. It was suggested that the National Forest Board had never indicated its support for the FCP, which raised the question of whether the Bank would impose its policy reforms regardless of the Board's opinion, and without even asking for it. And in congratulating AusAID for the sterling efforts of the FHRDP, the FIA was also reproducing some of the criticisms which the AusAID Project Identification Mission was directing against the design of the FCP, and thus raising a further question: 'Either the Bank is unaware of ongoing programs or wants to deliberately undermine them?'

The FIA's comments were presented at a meeting with Jim Douglas in November 1998, which was held in the offices of the PNGFA, and which was also attended by representatives of various government agencies. As on previous occasions, the Bank met separately with representatives of the NGO community, thus reinforcing the Association's vision of stakeholder relationships in the forestry and conservation sector. Before returning to Washington, Jim Douglas responded in writing to the FIA's comments (Douglas 1998), repeating a number of points which he had made at the meeting:

- Bank staff and consultants had consulted with the industry over the design of the project, but both sides would clearly have to make more of an effort. The 'oversight committee' would merely satisfy the requirements of bureaucratic coordination, and that is why it made no room for the FIA (or the NGOs).
- The project did not aim to reduce or modify the powers of the National Forest Board. The proposal for independent inspection of forest operations was intended to reduce the cost of compliance and ease the burden on the PNGFA budget, in light of experience gained in other countries. However, the Bank would reconsider the design of this sub-component in light of the progress made by the FHRDP and the report of the latest AusAID mission (which had not yet been received).
- The Bank noted the existence of a broad consensus regarding the need to strengthen landowner organisations. The FCP's attempt to meet this need, by establishing a consultancy unit outside of the PNGFA, was the result of advice from the government that this unit should have the potential to deal with these issues on a multi-sectoral basis. The government, as borrower, would likewise be responsible for the selection of consultants.
- The CTF would not be a creature of the Bank, but would simply serve to provide the financial incentives required to expand the conservation options available to resource owners. The forest industry might gain additional credit for itself by making its own financial contributions to the CTF, thus setting a useful example to other industries.
- The Bank had now conceded that the forest revenue system required some adjustment to deal with the downturn in the log export market. According to Douglas, the Bank had originally recommended that the log export tax scale

be denominated in US dollars, which would have limited the financial penalties imposed on the industry by devaluation of the kina, but this suggestion had not been acceptable to the government.

By this time, the FIA had copies of the various consultancy reports which the Bank had commissioned in response to their protests against the implementation of the new forest revenue system in July 1996 (Fortech 1997, 1998a, 1998b, 1998c, 1998d; Groome Pöyry 1998). In the eyes of the industry, these only served to show that its protests had been perfectly justified, since average log production costs were found to be considerably higher than those previously estimated by the PNGFA's Bank-funded consultants.² The Association's campaign against the new system had grown quite hysterical over the course of 1998, after log export prices had fallen as low as US\$50 per cubic metre, and monthly log export volumes had fallen to half the levels recorded in the golden years of 1993 and 1994. To make matters worse, the denomination of log export taxes in kina, rather than in US dollars, had placed an extra burden on the industry, because the kina had lost 34 percent of its value against the dollar over the previous eighteen months, yet imports still accounted for a major proportion of the industry's costs of production.

As we have seen, the Bank reluctantly granted the possible need for some form of 'interim' tax relief, and the industry's campaign finally bore fruit in the 1999 Budget, which included an exemption from export tax for all logs priced at less than K130 per cubic metre, and a corresponding reduction in rates levied on logs exceeding that price. This level of generosity certainly exceeded the Bank's expectations and desires.

The Green line to Washington

The provision of tax relief to the log export industry was only one small item in the 1999 Budget, which was personally crafted by the government's new Chief Economic Adviser, with a 'hands-on approach' which far exceeded anything he had managed to contrive while still working for the World Bank in 1996 and 1997. There was certainly no consultation with the Bank or the IMF, which is hardly surprising in light of their reaction to his appointment, but even Treasury officials were excluded from the process, along with nearly all other senior bureaucrats. The exception was the newly appointed Governor of the Central Bank, Morea Vele, who was thought to have a personal interest in the consulting company through which the Adviser's advice was channelled directly to the Prime Minister.³

² Bank staff have been inclined to disregard these findings, because they believe that they either reflect the inefficiency of the industry, or represent a concealed form of transfer pricing which is intended to minimise its exposure to corporate income tax.

³ Vele had been appointed to head the Structural Adjustment Program Implementation Secretariat when Hamidian-Rad was still the Bank's Task Manager.

This proof of the Bank's inability to influence the actions of its former Task Manager may well have been the straw which broke the back of the Bank's resistance to the idea of persuading a future government to impose a moratorium on the issue of new timber permits. Hamidian-Rad's departure from the Bank had certainly made it easier for environmental advocates in PNG to modify their former demand for a log export ban, because his previous refusal to countenance their arguments, at a meeting held in August 1997, had helped to provoke their own display of intransigence.

The international NGOs had indicated their own readiness to keep talking about the design of the FCP when they first put the case for a moratorium in January 1998 (Cortesi and Barclay 1998), and the alterations subsequently made to the 'Landowner Forest Decision-Making' component seem to have been partly motivated by the issues raised in these discussions.⁴ However, even after Hamidian-Rad had left the Bank, his former colleagues showed no immediate sign of accepting the argument that a moratorium was not only justified by the contraction of PNG's log export market, but would also facilitate the growth of an alternative forest industry, based on small and medium-scale operations, and with greater community participation and control.

In the midst of this silence, some members of the NGO community were alarmed by rumours that the Bank might instead support the PNG Government's moves to grant tax relief to the large-scale logging industry, and they asked the Bank to consider whether this might violate the spirit, if not the letter, of its own Forest Policy (Thies 1998). To reinforce the substance of this question, Greenpeace made arrangements for a lawyer from the Center for International Environmental Law to assist a prominent national NGO, the Individual and Community Rights Advocacy Forum, to draft a submission to the Bank's Inspection Panel. Local landowners from different parts of the country were invited to a workshop at which this process of appeal was considered in some detail, and the lawyers were then able to draft a document of 'complaint' on their behalf. The complaint was that the Bank had indeed been violating its own Forest Policy ever since the inception of the NFCAP in 1990, not only because it had failed to enhance the government's capacity to regulate an industry which was inherently 'corrupt', but because it had in some ways encouraged the expansion of that industry and its adverse impact on the natural and social environment in which it operated.

A copy of this document was delivered to Jim Douglas when he returned to Port Moresby in November 1998, and a minute of the meeting which ensued provides the first clear evidence of the Bank's willingness to support the call for a moratorium on the development of new log export projects – provided that the government claimed prior 'ownership' of this new policy measure (ICRAF 1998). Those members of the NGO community who were present at this meeting

⁴ The NGOs were less successful in pressing their case for an increase in the size of the Conservation Trust Fund and a corresponding reduction in the amount allocated to the Sustainable Forest Management component.

seem to have come away with the impression that the Bank did expect the government to include this measure in the 1999 Budget. But if that was really the case, then the Bank was soon disabused of its expectation. It is not clear which government officials might have been involved in discussion of this issue, but when one considers the manner in which the budget was designed, the outcome should have come as no surprise, either to the Bank or to the NGOs to which it was now listening more sympathetically.

Structural adjustment without the loans?

The 1999 Budget contained a number of measures which could be seen (and were presented) as a radical step forward in the process of 'structural adjustment', and which might therefore be expected to attract the belated support of the multilateral institutions, whose anticipated contribution of loans worth US\$100 million was rather optimistically included in the revenue projections. The long-awaited Value Added Tax was to be introduced by the middle of 1999, the *Pioneer Industries Act* was to be repealed, there would be further reductions in import controls, and more determined efforts to speed up the privatisation of government assets and instrumentalities. But the central plank in the budget strategy was a massive cut in recurrent expenditure, which was intended to reduce the national debt and finance a corresponding increase in 'development expenditure'. This entailed the complete abolition of more than twenty national government institutions (including all those bodies whose title happened to include the word 'institute'), reductions of 20-50 percent in allocations to most of those which remained,⁵ and a 50 percent cut in conditional grants to provincial authorities.

On the other side of the equation, the boost in 'development expenditures' was artificially inflated by subsuming the whole of the Australian tied aid program within the Public Expenditure Program, so that the fees and salaries paid to a small army of Australian consultants could be counted as a form of 'development', but was also taken to include an even more contentious package of allocations which were supposed to constitute the backbone of the government's new 'Rural Development Policy'. These included:

- K54.5 million in 'District Support Grants' to be paid directly to the 109 national MPs, who had recently voted to increase these 'slush funds' from K300,000 to K500,000 per annum; and
- K91 million for the 'Rural Development Fund', which was to be distributed equally between the Joint District Planning and Budget Priorities Committees that were chaired by the MPs representing the 89 open electorates.⁶

⁵ The Forest Authority's budget was cut by 22 percent in nominal terms, and more than one third in real terms (World Bank 1999b: 56).

⁶ There should have been K1 million for each open electorate, but someone had miscalculated the number.

In theory, the overall increase in the size of the political pork barrel was meant to 'compensate' the provinces for the cuts in their own grant allocations, while a new Office of Rural Development was supposed to lay down strict guidelines for expenditures made from the Rural Development Fund. However, the budget allocated to this entity was considerably less than the cuts made to the budget of the Office of National Planning and Implementation, which would normally be expected to perform such a task, and there was only a small minority of open electorates in which the district planning committees had any sort of planning capacity.

Once the Budget had been passed, and the Prime Minister had quelled a small storm of opposition from the trade unions and other interest groups by promising to review nearly all of its provisions, the government used its numbers to suspend Parliament until July 1999. In the months which followed, government MPs either took to entertaining themselves with overseas expeditions or else circulated around their electorates, distributing cheques and vehicles as if there were no tomorrow. The chief exponent of this latter art was the Prime Minister himself, who appeared to spend more time on the administration of handouts than on all items of Cabinet business put together. Since Opposition MPs discovered that their own slush fund allocations were surprisingly difficult to access, the government's Rural Development Policy could therefore best be described as a Political Survival Policy.

None of this seemed to trouble the Chief Economic Adviser, whose own efforts were primarily directed towards the retrenchment of thousands of public servants under the keen supervision of a body known as the Budget Implementation Committee. Indeed, government agencies were spending so much time on the construction of hit lists, organisation charts, or justifications for their own continued existence, that the whole bureaucratic apparatus of the state had virtually ground to a standstill by March 1999. This exercise was further complicated and delayed by an almost complete breakdown in consultation and coordination between the Budget Implementation Committee, the Department of Treasury and Planning, and the Department of Personnel Management.

In reality, the bottom line was that the government simply did not have the funds required to pay for the retrenchment exercise:

- no significant progress had been made with plans to secure the necessary funding from the sale of government assets;
- government revenues from mineral exports had already fallen a long way short of budget projections because of the slump in oil, copper and gold prices;
- financial institutions under government control (including the Central Bank and the public service superannuation fund) had already been plundered to patch up the deficit inherited from 1998; and
- nothing had so far come of attempts to raise additional funds from foreign commercial banks or from a proposed sale of 'eurobonds' to international

investors, because the required rates of interest and government guarantees had proven prohibitive.

In January 1999, a joint mission of the IMF and World Bank arrived in PNG to make another assessment of the country's economic situation and another attempt to resolve the stalemate over their own structural adjustment package. Their inability to extract crucial information from various government agencies (including the Central Bank) soon convinced them that their opposite numbers were not yet ready to throw in the towel. The IMF's assessment was strategically leaked to the local press shortly after the mission's departure (*The Independent*, 5 March 1999), and could hardly be described as an optimistic document. While GDP had indeed risen by 2.5 percent in 1998, this was less than half the figure projected in the previous budget, and represented little more than a partial recovery from the effects of the drought in 1997. Comparison with 1997 figures also showed some more alarming trends:

- foreign direct investment had fallen from 7 percent to 2 percent of GDP;
- a small budget surplus had been converted into a deficit equivalent to 1.7 percent of GDP;⁷
- official reserves had fallen from \$355 million to less than \$200 million; and
- the adjusted annual rate of inflation was liable to rise above 20 percent.

With figures such as these, the report found that a 'fragile macroeconomic situation' was accompanied by 'an alarming weakening in the public finances', which was due to a serious lack of 'transparency' in the activities of public financial institutions, and by a 'deterioration in the quality of economic governance', which was evident both in the volume of 'unbudgeted, politically motivated outlays' and in the level of 'political interference' in the management of the Central Bank. As a result, the country was now facing the imminent prospect of a 'full-fledged fiscal crisis' for which it had no plausible solution.

The government's cash crunch may serve to explain why its Chief Economic Adviser was implicated in a series of political manoeuvres to boost the volume of raw log exports at the expense of those very conditions which he had previously been so keen to include in the SEDP Policy Matrix. By March 1999, the tax relief already granted to the industry was apparently being taken as a pretext for cancelling the log export surveillance contract, while the level of cuts made to the PNGFA's own budget would clearly preclude it from taking over this function on its own account, thus leaving the door wide open for the companies to resume their former transfer-pricing practices.

Meanwhile, political directives were issued for the 'fast-tracking' of 15-20 new logging projects, and the NFS was 'restructured' to prevent its reformist elements from defending the regulations and procedures that might inhibit this process. Finally, the threat of continued political interference in senior

⁷ This estimate was later revised to make the deficit equivalent to 4 percent of GDP (World Bank 1999b: vii).

bureaucratic appointments seems to have ensured that the National Forest Board could now be relied upon to exercise its 'independence' in a manner which complied with the aims of the log exporters and their new friends in government.⁸

Despite these alarming developments, the extra revenues which might be raised from the imposition of log export taxes on additional shiploads of under-priced logs could only represent a small drop in the ocean of the government's financial deficit, whatever the impact on the balance of trade and the level of foreign investment (World Bank 1999b: 67). With this consideration in mind, the World Bank and IMF continued to sharpen the knives of conditionality, in the expectation that the Skate government, or more hopefully a new one elected in a vote of no-confidence, must finally return to Washington in a suitable condition of humility, ready and willing to claim ownership of a Policy Matrix in which conditions of 'sustainable development' would once again be underlined with a heavy green pencil. And if there had been any previous doubt about the Bank's willingness to persuade a new government of the need to restrict the further expansion of the log export industry, the fresh evidence of 'bad governance' in the forestry sector had undoubtedly tipped the scales.

The end of the rainbow

In the first week of June 1999, six weeks before Parliament was due to reconvene for the anticipated test of his political authority, Skate redoubled his efforts to divide the political parties and factions which were threatening to combine against him. He sacked half of the ministers belonging to the People's Democratic Movement, his major coalition partner, including the Minister for Fisheries, Mekere Morauta, who was being courted by the Opposition as their choice for a new Prime Minister. At the same time, Skate celebrated his 'reconciliation' with Chris Haiveta, his former Deputy Prime Minister, whom he had unceremoniously sacked towards the end of 1997. Haiveta was promptly rewarded with the task of announcing a new 'Economic Rescue Package' (GoPNG 1999a), which was presented to the public as evidence of his own financial expertise, but which had in fact been crafted by Hamidian-Rad.

By this time, the Chief Economic Adviser was showing signs of desperation in his search for the extra funds required to cover the projected budget deficit and support the Prime Minister's lavish political lifestyle. Amongst the more implausible revenue-raising measures contained in his 'matrix' were:

- a 'compliance audit of logging operators to ensure proper and timely payment of company taxes as well as foreign exchange retention scheme' (sic), to be completed by the end of July, which was expected to yield an extra US\$40-50 million in foreign exchange by the end of the year;

⁸ The obliging Forests Minister, Peter Arul, was the brother of the former Minister, Andrew Posai, and had been a leading figure in the formation of the FROA.

- an increase in the rate of log export tax ‘after review of current prices and the experience with the foreign exchange retention procedures’, which was to be the subject of legislation in the July sitting of Parliament, and was expected to yield a possible additional tax revenue of K20 million’; and
- the introduction of a ‘logging surveillance levy’, at the rate of K2 per cubic metre, which was also to be the subject of immediate legislation, and which would yield a further K2 million in 1999 to cover the cost of the log export monitoring operation.

These measures would no doubt have caused as much amazement in Washington as they did amongst the members of the Forest Industries Association, were it not for the widespread perception that the whole ‘package’ was little more than a flight of fancy. The reformists in the national bureaucracy kept their eyes firmly fixed on the latest draft of the Bank’s Country Assistance Strategy (World Bank 1999a), which was built around the more familiar proposition that ‘[p]olitics as business and politicized public administration are at the heart of PNG’s governance crisis’.

Haiveta himself may have shared the lack of faith inspired by the so-called ‘rescue package’, because the government’s next (and final) effort to salvage its financial credibility was strangely reminiscent of the deal which he had sought to negotiate in April 1995, in his previous incarnation as Finance Minister and Deputy Prime Minister, when the Chan government was looking for ways to evade the conditions attached to the ERP. This comprised an offer of diplomatic recognition to the Government of Taiwan, accompanied by a request for grants, soft loans, and technical assistance with a value in excess of US\$2 billion (*Post-Courier*, 7 July 1999). By the time that Bill Skate and his entourage had returned from their visit to Taipei, the Chinese Government had already complained to the Australian Government, and Australian journalists had alerted the rest of the world (see Standish 1999). For one brief moment, PNG’s politicians were once again united in outrage at the implied affront to their national sovereignty, but the government’s ‘one-China policy’ outlived the government itself. On 14 July, after several days of intense political horse-trading, an overwhelming majority of the National Parliament elected Mekere Morauta as the new Prime Minister. The Taiwanese deal was called off; Hamidian-Rad was arrested; and the World Bank was welcomed back with open arms.

CHAPTER 5

A NEW BEGINNING UNDER THE MORAUTA GOVERNMENT

It should be evident from the previous two chapters that the 'policies' of a new PNG government are not normally revealed in all their diversity and complexity until several months have elapsed after its installation. The new Morauta government, or rather the new Prime Minister himself, broke with this tradition by rapidly moving to install several of the key planks in a 'Structural Reform Program' which was intended to address a generic 'crisis of governance' and restore the lost confidence of the donor community.

Forest policy reform was not initially regarded as a critical ingredient of this broader program of action, but the World Bank was able to persuade the new government to regard its predecessor's actions in this sector as a prime instance of the generic crisis, and one which demanded an even tougher set of loan conditions than those which had been proposed in 1997 and 1998. Chief amongst these was a moratorium on the issue of new timber permits and extensions to existing permits, which was justified in terms of various irregularities that were detected in the actions of the National Forest Board, but which also embodied the Bank's readiness to compromise with some of the longstanding demands of environmental NGOs with a strong voice in Washington. At the same time, Bank staff continued to modify the design of the PNG Forestry and Conservation Project (FCP) in order to ensure that this would complement the forestry and conservation projects funded by other donor agencies.

By the end of 1999, which is also the end of our own historical account, the Bank had reached a broad agreement with other members of the donor community, including the international NGOs, about the further direction of forest policy in PNG, at least for the next five or six years. However, question marks still remained over the new government's capacity to move in this direction of its own accord, or to develop any real ownership of a reform process which now seemed more than ever driven by external forces, even if some of those forces were located in the ranks of its own 'civil society'. In this chapter, we shall document the ways in which the new reform agenda came to be formulated, but without claiming any ability to predict or evaluate the manner of its implementation.

The Structural Reform Program

The new Prime Minister lost no time in alerting the public to the gravity of the situation which his government had inherited, or in announcing his determination

to make the most of what he freely described as the nation's 'last chance' to save itself from economic and political ruin. While some commentators questioned his ability to transform the networks of political patronage in which his own party had been implicated through its membership of Skate's disreputable coalition, the quiet dignity of his own public demeanour could not have cut a greater contrast with the erratic and impatient postures of his predecessor. Perhaps the hidden hand of former party leader, Paias Wingti, might be detected in the allocation of so many ministerial portfolios to members of the People's Democratic Movement. But Morauta kept three of these, including the critical Ministry of Finance and Treasury, in his own hands, and allocated others, including the Ministry of Planning, to politicians who were not members of his own party, but who were party to the 'kitchen cabinet' which helped to write the new government's recipe for economic and political reform.¹

Within a month of his appointment, in his dual role as Prime Minister and Minister for Treasury and Finance, he had also replaced Skate's inner circle of financial controllers and policy advisers with one of his own choosing. In this new 'mafia', the space vacated by Pirouz Hamidian-Rad was promptly occupied by Jakob Weiss, an Israeli economist who had formerly worked in PNG's Central Bank, and who had been an economic adviser to the Chan government when Morauta had been the bank's Governor.² Weiss and his colleagues were charged with the task of blending the government's proposals for institutional reform with a set of economic prescriptions which would purchase the maximum financial support from a previously disillusioned donor community. Morauta himself had long been aware that the basic substance in this recipe would have to be the concept of 'good governance', and this duly became the watchword of the Structural Reform Program (SRP). The question was how to persuade the donor community that his government was more sincere in its pursuit of this ideal than all the previous governments which had adopted the same rhetoric.

The first signals were sent in the form of a supplementary budget that was intended to reduce the deficit of K200 million which had already accumulated in the first half of 1999, by raising about K72 million in additional taxes, and cutting second-half expenditure by K140 million. The public sector retrenchment program, whose partial implementation had already cost far more than it had saved, was suspended until further notice. The more immediate priority was the retirement of K2.2 billion in domestic public debt, of which K1.2

¹ Under the previous government, the Finance Minister had been responsible for the government's revenue collection agency, while the Treasury Minister had been responsible for its budgeting and planning agencies. By restoring the planning agency to its former status as a separate department under its own minister, Morauta was recreating the situation which existed when he was the country's first Secretary of Finance.

² Hamidian-Rad, now described in newspaper headlines as 'Sad Rad', spent many frustrating hours in court on charges of fraud and tax evasion, and was continually prevented from leaving the country by last-minute court orders, before finally being sent to prison for three months in October 1999 on account of his claim that there had been some political interference in the decisions of the Supreme Court.

billion was owed to the Central Bank on terms which had clearly compromised the integrity of that institution.³ A more determined and transparent effort to privatise government enterprises was seen as the medium-term key to the reduction of this debt.

However, the previous government had shown that wishful thinking on the macroeconomic front would not yield tangible results if no steps were taken to reassemble the political and bureaucratic machinery for managing public assets. So the next step was to reconstruct the interface between Cabinet and the central bureaucratic agencies – the departments of the Prime Minister, Treasury, Planning, and Personnel Management – by grouping the senior bureaucrats in a Central Agencies Committee, which would evaluate all Cabinet submissions for their consistency with the SRP, while reviving the Budget Priorities Committee as the sub-committee of Cabinet which was responsible for the program's policy direction.

It was evident from the outset that the Australian Government was keen to play a pivotal public role in marketing the new government's sincerity to the rest of the donor community, and the new Prime Minister reciprocated with applause for Australia's part in mobilising the group of bilateral donors which came to be known as the 'Friends of PNG' (*Post-Courier*, 13 September 1999). The Australian Treasurer, Foreign Minister and Prime Minister all visited Port Moresby within three months of Morauta's election, bearing sundry gifts and good tidings. The Treasurer arrived within a matter of days, announcing an advance of A\$30 million out of his government's allocation for 'untied' budget support to the PNG Government in the year 2000, and the Prime Minister's arrival in October was to set the seal on the new Development Cooperation Treaty which promised to retain the nominal value of the whole Australian aid program for the next five years, thus alleviating any local concern over the possible diversion of aid to East Timor. On the other hand, the Australian Government was quite explicit in its warnings that any further financial support would not be forthcoming until the SRP had received the official endorsement of the IMF and the World Bank.

While all this was going on, the World Bank sat on its hands, mindful perhaps of the lessons learnt from its eager interventions in the formulation of PNG's last two structural adjustment programs. The IMF was left to make the running, as it had done during the latter months of the Skate government's term of office. An IMF mission followed hard on the heels of the Australian Treasurer, and played some role in the preparation of the August mini-budget, as well as gathering the information required to assess the new government's application for a 14-month standby facility. A government delegation which took this application to Washington at the end of September, shortly after the IMF mission had completed its report, did not return with any new tidings from the World Bank with respect to the policy conditions which might be attached to

³ Public debt as a proportion of GDP had increased from 36.4 percent in 1988 to 58.2 percent in 1998, and almost half of this was domestic debt (GoPNG 1999b: 11).

the next structural adjustment loan. At this juncture, the Bank was only undertaking to reconvene the country's Donor Consultative Group, which had not met for many years, in order to spread the responsibility for making an external assessment of the SRP.

At the same time, however, Bank staff were putting the finishing touches to a very substantial internal report on 'Improving Governance and Performance' in PNG (World Bank 1999b), which not only revealed their close scrutiny of the new government's actions and intentions, but also included a large number of 'recommendations'. It was only when this report had been completed, in early October 1999, that these recommendations were converted into a draft Policy Matrix which was faxed across to Port Moresby later that month, a matter of days before the Consultative Group was due to meet. This left the government's own inner circle of policy makers, who had by this time produced their own Policy Matrix for the SRP, no time at all in which to consult with a wider circle of stakeholders, even if they had wanted to, before they set about the reconciliation of these two documents in preparation for the 2000 Budget.

The Bank's reticence might be seen to have paid off, in the sense that there was no public hue and cry about the evils of structural adjustment, of the kind which had occurred in 1995, and the Prime Minister's own statements about the need for reform seemed far more credible than Bill Skate's outbursts of resentment at the spectres of foreign domination. Even when the IMF revealed its own concerns at the end of September, most of what it had to say about the management of public money was both familiar and uncontentious. The only IMF 'demand' which did attract a good deal of public debate was that which was apparently directed towards the abolition of the notorious 'slush funds' contained in the government's Rural Development Program (*Post-Courier*, 23 September 1999; *The Australian*, 9 November 1999), and this was certainly not an issue on which the politicians could mobilise a popular front for the defence of national sovereignty.

On the other hand, many politicians could and did threaten to withdraw their personal support for the Prime Minister if he agreed to any such demand, so this became the main sticking point in the government's negotiations with the donor community. By the time of the Consultative Group meeting in November, the donors (now including the World Bank) had extracted an undertaking to reduce the total amount of funds allocated to the program, to return the responsibility for its administration from the Office of Rural Development to the Department of Planning and Monitoring, to subject the bulk of the funds to much stricter planning and accounting guidelines, and to allow for donors to participate in the design and implementation of these guidelines.

Shortly after this meeting, the Prime Minister did announce the government's intention of reducing the amount of funds allocated to each of the 89 open electorates from K1.5 million to K1 million, which would have brought the total cost of the program down to K99 million (*Post-Courier*, 16 November 1999). But it seems that Cabinet was not prepared to buy this reduction, for fear

of losing the parliamentary support required to pass the budget, because the budget that was brought down at the end of November still contained a total allocation of K143.5 million to the Rural Development Fund and the District Support Grants. Of this total, 81 percent was to be allocated to the so-called District and Provincial 'Development Programs', which would be subject to the new planning and accounting guidelines, while the remaining 19 percent was to be allocated to the so-called 'Rural Action Program', in which the politicians would retain their accustomed level of discretion.⁴ In this respect, no real change had been made to the provisions of the 1999 Budget, despite the huffing and puffing of the donor community. The total of K143.5 million was still more than 50 percent of the government's contribution of K281 million to a 'development budget' which also included K529 million in 'Project Support Grants' from donor agencies and K93.7 million in 'new concessional borrowing' (GoPNG 1999b: 33).

The real value of new concessional borrowing would almost certainly exceed this amount, even over the course of the next financial year, if it was true that the total value of the 'financial assistance program' assembled by the IMF and World Bank was US\$400 million, and if this did not include the possible contributions of other lending agencies in the donor community (*The Australian*, 15 December 1999). Aside from the provocation implied in the maintenance of the Rural Development Program, the 2000 Budget was clearly intended to be consistent with the Bank's version of the SRP Policy Matrix, and thus facilitate the release of these funds.

This matrix had nine objectives, 39 first tranche conditions, and 33 second tranche conditions. One of the first tranche conditions was publication of the government's own version of the Policy Matrix in the 2000 Budget Papers,

⁴ There is a great deal of public confusion regarding the subdivision of funds allocated to the Rural Development Program, which has followed from continual changes to the names of its component parts, as well as the amounts of money allocated to them. It appears that this confusion even extends to the minds of Treasury and Planning officials, because the first volume of the 2000 Budget Papers makes reference to an allocation of K143.5 million to the 'District Development Program' (GoPNG 1999b: 33), whereas the second volume shows that the District Development Program only accounts for K111.25 million (GoPNG 1999c: 51). Under this latter scenario, the budget for the Rural Development Program is divided as follows: the whole of the allocation to the Rural Development Fund (K1 million for each of 89 open electorates) is to be channelled through the District Development Program; the District Support Grants allocated to the open electorates (K500,000 each) are to be divided equally between the District Development Program and the Rural Action Program; and the District Support Grants allocated to the 20 provincial electorates (also K500,000 each) are to be divided equally between the Provincial Development Program and the Rural Action Program. The Rural Action Program (the true 'slush fund') thus receives a budget of K27.25 million, while the District and Provincial Development Programs receive a budget of K116.25 million. The word 'rural' in the titles of the Rural Development Program, the Rural Development Fund, and the Rural Action Program is something of a misnomer, since four of the 89 open electorates are entirely urban. Furthermore, three of these four urban electorates are not 'districts', because they are contained within the National Capital District, which is treated as a province under the Provincial Development Program.

where it duly appeared as an appendix to the first volume (GoPNG 1999b). In this official version, the SRP had only four objectives:

- promoting good governance;
- sustaining macroeconomic stability;
- improving public sector performance; and
- removing barriers to investment and economic development.

However, the 24 items listed under its 'policy agenda' included measures designed to satisfy the more detailed set of conditions listed in the Bank's matrix, and a more specific time frame for their implementation. Elements of forest policy still made an appearance in both documents, but while the Bank saw these as contributions to a single policy objective, the government divided them into separate boxes, whose mutual relationship was apparently submerged beneath the program's central concern with financial management, transparency and accountability.

The moratorium comes to light

One of the fiscal measures adopted in the new government's mini-budget of August 1999 was the restoration of the log export tax regime which had been effectively abandoned by the previous government. While this measure could be seen as one of the 'right signals' which the new government intended to convey to the World Bank and the IMF, it understandably provoked another storm of protest from the logging industry. The FIA promptly complained that its member companies would only be retaining 44 percent of total log export earnings under this fiscal regime, given the prevailing export price of US\$77 per cubic metre, and predicted that log production would fall by 142,000 cubic metres per month, with a corresponding loss of US\$11 million in monthly foreign exchange earnings (*Post-Courier*, 19 August 1999).

When the World Bank team arrived for the Consultative Group meeting in November, its members were greeted with the largest newspaper advertisement which the FIA had ever commissioned in its long-running publicity campaign against the forest revenue system – a total of four pages of facts and figures (*Post-Courier*, 5 November 1999), many of which were correctly attributed to the report on production costs (Fortech 1997) which the Bank had received two years previously. The advert reiterated the industry's demand for the tax to be denominated in US dollars, arguing that further devaluation of the kina had produced a situation in which the top rate of tax was now payable on logs whose export price exceeded US\$74 per cubic metre, compared to \$91 per cubic metre in November 1998, while the average export price was still only \$75 per cubic metre. The advert also made reference to a recent Cabinet decision to 'support a comprehensive review of all forest revenue and taxation matters'.

Industry representatives may or may not have been aware of the fact that Bank officials had already conceded the need for a further review of the forest revenue system, despite their belief that the level of tax relief granted in 1998 had

been ‘excessive and unwarranted’ (World Bank 1999b: 67). The draft Policy Matrix which the Bank dispatched to the inner circle of national government officials and consultants engaged in preparation of the 2000 Budget already contained a second tranche condition to this effect, albeit one which required that any recommendations resulting from the review should meet with the Bank’s own approval before being presented to Cabinet. This condition was one of five attached to what the Bank had chosen to designate as the seventh of the SRP’s nine objectives, which was ‘to improve the management of the forestry sector to ensure sustainability and optimal returns to the country’.

Three of the other conditions attached to this objective would have been familiar to the government’s key policy brokers from their previous negotiation of the SEDP and FCP:

- one first tranche condition reiterated the call for NEC Decision 59/97 (regarding agricultural conversion and road-building projects in forested areas) to be rescinded;
- another first tranche condition required a five percent increase in the budget allocation to the PNGFA, which would enable it to carry out its ‘expanded functions’, and would also cover the cost of the log export surveillance contract; and
- another second tranche condition required this budget allocation to be disbursed ‘in a timely fashion, and on a pro rata basis’.⁵

It is not clear whether the arrival of the draft Policy Matrix had any immediate influence on Cabinet’s agreement to review the forest revenue system. We understand that the same meeting of Cabinet also agreed to extend the log export surveillance contract with SGS for a further eighteen months, despite the protests of the National Forest Board,⁶ and this could certainly be taken as a sign of compliance with the Bank’s stated wishes. On the other hand, the FIA had exerted its own influence on Cabinet through the institution of the Consultative Implementation and Monitoring Council – a body set up to provide for dialogue between government planners, the private sector and ‘civil society’. This would seem to explain the allusion made to the relevant Cabinet decision in the Association’s own publicity campaign.

However, if the FIA considered that this decision counted as a small victory for the log export industry, and even a small victory over the World Bank, the Bank had a bigger stick to wield against it, in the shape of a fifth condition for sustainable forest management in the draft Policy Matrix. This was a first tranche condition which bluntly required a ‘[m]oratorium on all new forestry

⁵ For some reason, a number of possible conditions relating to the passage and enforcement of environmental legislation, which had certainly been present in the draft Country Assistance Strategy, made no appearance in the draft Policy Matrix.

⁶ Board members took the view that this contract was always intended as an interim measure, and that SGS had failed to create the conditions under which the National Forest Service could assume direct responsibility for the log export monitoring operation.

licenses and extensions until existing licenses and extensions have been reviewed for compliance with the Forestry Act and Regulations'. We know that this condition had been the subject of active discussion between Bank officials and various environmental NGOs, most notably Greenpeace, over the course of the previous year (see Chapter 4). It also appears as one of the recommendations of a workshop held in PNG in May 1999 (WWF 1999: 23), under the joint auspices of the World Bank and the Worldwide Fund for Nature, which was attended by a few reformist bureaucrats, as well as members of the NGO community. But we can find no evidence of it being formally presented to government officials, and certainly no sign of any formal consultation with either the PNGFA or the FIA, before the draft Policy Matrix was dispatched at the end of October.

The only approximation to a moratorium in the draft Country Assistance Strategy which was circulated before the fall of the Skate government was a proposal that:

All new concessions now under consideration through streamlined procedures (fast track) are withdrawn or resubmitted in accordance with established procedure.

Regulations should be amended to provide for a maximum size of an extension, say 25,000 hectares.

The principal bone of contention behind this pair of conditions was a decision made by the National Forest Board in February 1999, against the advice of senior officials in the National Forest Service, to recognise the 780,000 hectares of forest covered by the Kamula-Doso Forest Management Agreement as an 'extension' of the existing Wawoi-Guavi concession, which was already held by a subsidiary of PNG's largest logging company, Rimbunan Hijau. The Board's apparent neglect of the tender procedures specified in the *Forestry Act* was not without precedent, because it had allocated an equally large 'extension' to an existing concession back in 1995 (Filer 1998: 193). However, as in that previous case, the decision was referred to the Ombudsman Commission while being challenged in court by local landowners and subjected to critical scrutiny in the national newspapers (*Post-Courier*, 12 May 1999). And in both cases, the Greenpeace representative in PNG played a crucial role in contesting the validity of the decision and spreading word of its significance to an international audience.

By July 1999, when the story made an appearance on Australian television screens, and the Managing Director of the PNGFA was already beating a tactical retreat in the face of the Ombudsman's inquiries, the American arm of Greenpeace was seeking the Country Director's assurance that the World Bank would 'retain a condition for a moratorium on acquisition and allocation of new/extended logging areas as part of either the FCP or a new structural adjustment loan to PNG' (Cortesi 1999). This was a reference to various discussions which had already taken place between NGO and World Bank representatives in order to confirm the undertaking previously given by the Forestry Adviser during his visit to Port Moresby in November 1998 (see

Chapter 4). However, the extent of this undertaking took some time to penetrate the Bank's routine process of documentation. In the relevant sections of its own internal report on the task of 'improving governance and performance' in PNG, which was only finalised after the change of government, the Bank certainly recognised that the independence and integrity of the National Forest Board had been called into question by the allocation of the Kamula-Doso 'extension'. But the moratorium proposed in this report was only meant to last until '*recently awarded* extensions and permits are reviewed and a satisfactory framework to address them is put in place' (World Bank 1999b: 57, our italics). It is only in the draft Policy Matrix that we find hard evidence of the Bank's intention to extend the moratorium until *all* current permits and extensions have been subject to review.

Even at this stage, the opponents of a moratorium might have detected some elements of ambiguity in the wording of the Bank's conditionality, but they would not have found much reassurance in the Bank's own manner of announcing its intentions to a wider audience. Shortly after the conclusion of the Consultative Group meeting, one local newspaper published a lengthy feature article, entitled 'Landowners to Gain from World Bank Funded Forest Project', which was largely based on an interview with the Bank's regional Forestry Adviser, Jim Douglas. A substantial part of this article was concerned with the threats which had been posed to the FCP by the various 'questionable decisions' which had been taken in the first few months of 1999. These were itemised as follows:

- The allocation of a large concession extension to the largest timber concession in PNG through a process outside normal procedure;
- The fast-tracking of new logging operations where provincial forest management committees were directed to 'fast-track' a number of new operations;
- The amending of the Forestry Act to legitimise the fast-track approach of approving logging operations;
- The elimination of the SGS log export monitoring program for the purposes of export tax avoidance;
- The reducing of budget allocation and staffing in the Forest Authority, undermining the authority's capability to support major forest projects;
- Changes to the log export tax structure, resulting in virtually no tax being paid by logging firms; and
- The repeal of a forest concession to The Nature Conservancy who had negotiated the concession at Josephstaal in Madang to demonstrate good concession practice and sustainable forest management, but had the concession withdrawn, only to be given to a commercial operator (Choi 1999).

It seems that the local journalist was also supplied with a copy of the letter which the Bank's Acting Vice-President for the Asia-Pacific Region, Julian Schweizer, had sent to Bill Skate in April 1999, because he quoted this at length:

'There have been recent developments in the forestry sector which raise serious concerns. These developments appear to undermine policy reforms proposed under the Forestry and Conservation Project and threaten further potential reforms being considered under the Social and Economic Development Program.

Large concession extensions, fast tracking of new logging operations, possible amendments to the Forestry Act, log export monitoring and recent changes in the export tax are cases in point.

We are nearing completion of the appraisal process for the Forestry and Conservation Project. Maintaining high standards of governance and transparency in the forestry sector is crucial for the further processing of this loan as well as the Social and Economic Development Program Loan. You have previously stated your commitment to the conservation and sustainable management of your country's vast forest resources repeatedly in the past, and we hope therefore that we can continue to count on your firm determination in this regard.' (ibid.)

Having assured his interviewer that some of these irregularities were now being scrutinised by the Ombudsman Commission, Douglas went on to explain that the FCP was an integral part of the SRP, and 'highlighted' the need for a moratorium on new timber concessions, a review of 'all existing logging operations', and a far greater level of transparency in the deliberations of the National Forest Board. This exercise in the art of public relations was apparently intended to raise the stakes in the Bank's dealings with the government, as well as to signal the Bank's sincerity in its undertakings to the NGO community.⁷

The Forest Authority's Managing Director, Thomas Nen, apparently saw this article as a deliberate attempt to manipulate public (or 'civil society') opinion, not only in favour of the FCP, but also in opposition to the National Forest Board. He set down his own objections to the Bank's allegations in a letter published two weeks later, claiming that each of the seven 'questionable decisions' had either been properly made, or not made at all, or made by parties other than the Board itself. According to this letter, the PNGFA had advised the Department of Treasury and Planning, in May 1999, that the government should not accept any loans for new projects in the forestry sector unless it could be shown that the benefits would outweigh the costs, that due consideration was given to national needs and priorities, and that national institutions had the capacity to implement the components for which they were to be responsible. The Department of Treasury had also been asked to ensure that the FCP was

⁷ It is interesting to contrast the transparency of this 'political signal' with the article published by 'Noah Ariku' in the same newspaper after the Bank had forced the Chan government to retreat from its amendments to the *Forestry Act* (see Chapter 3).

‘worth pursuing as a “stand-alone” project’, regardless of its attachment to any program of structural adjustment.

Mr Douglas needs to be told or reminded that the Project Appraisal Document (Final Version?) will have to be deliberated at the National Forest Board level. Otherwise what he preaches is hypocrisy [sic] to the best of my knowledge. For his and the public’s information, the Board tried to deliberate on that document but could not reach a decision because all of us (board members) at that time did not know whether the version was final (*Independent*, 25 November 1999).

Despite these protestations of innocence and sincerity, the wording of the 2000 Budget Papers implied that ‘the government’ had fully accepted the Bank’s dim view of the PNGFA’s recent performance.

Governance has been particularly poor in the area of forestry, with the side effect of promoting corrupt practices and undermining environmental sustainability in logging activities. The Government is committed to introducing a moratorium on all new forestry licenses, extensions and conversions, and to proceed with a review of all existing licenses, to ensure that proper procedures are followed, that logging practices are not carried out in an unsustainable way, and that landowners get their fair share of benefits from resource use (GoPNG 1999b: 18).

The government’s own Policy Matrix indicated that the moratorium was to take effect immediately, and was to be jointly implemented by Cabinet and the PNGFA itself. The Budget Papers also promised that ‘the National Forest Authority will be adequately funded to ensure the continued surveillance of log exports by an external and independent company’ (ibid.: 20). On the other hand, there was no provision for any increase in the PNGFA’s recurrent budget of K17 million, which left a number of government officials (including those in the NFS) to wonder who was really going to pay for the contractor’s services, let alone the Forest Authority’s own ‘expanded functions’, as envisaged in the Bank’s version of the matrix.

At the same time, those officials who were responsible for predicting export volumes and values do not seem to have taken any account of the possible impact of a moratorium on the log export industry, because they were projecting an increase in the volume of log exports from 1.6 million cubic metres in 1999 to two million cubic metres in 2001, with a corresponding increase in export earnings from K305 million to K500 million over the same period. Even if the government could now be said to ‘own’ the moratorium, there was as yet little basis for the argument that it had either started to consider the economic value of its new property, or made any serious attempt to sell it to those domestic consumers who had not been privy to its construction.

A new horizon for the Forestry and Conservation Project

If the Forest Authority's Managing Director had actually sighted the latest draft of the FCP Project Appraisal Document, he might have been surprised to see that its 'indications of borrower commitment and ownership' still contended that 'the FA's General and Managing Directors support a forestry and conservation project of the nature described in this document' (World Bank 1999c: 17). Considering the nature of his public comments on the project, he might also have been annoyed to see that the value of the loan component had gone up from US\$13 million to US\$18 million, and that the number of conditions attached to this loan had likewise risen from eleven to eighteen, during the course of the previous year. In point of fact, eight of the new conditions were primarily related to the operation of a Project Management Unit in the Department of Planning and Monitoring, but two of them were clearly related to some of the 'questionable decisions' recently taken by the National Forest Board (see Box 5.1, Conditions 1.1 and 1.4).

The moratorium which was now included in the design of the FCP was somewhat different to the one specified in the Bank's version of the SRP Policy Matrix. On the one hand, it covered the PNGFA's acquisition of additional resources through the negotiation of new Forest Management Agreements with landowning communities, as well as the allocation of such resources to logging companies by means of new licences or extensions. On the other hand, this moratorium was to last until there had been a review of 'all current logging proposals in various stages of approval', and made no mention of current projects already approved. In this case, the moratorium was also to last until the results of any review process had been made available to the public, as part of a broader requirement for public participation in the whole process of resource acquisition and allocation.

If these conditions implied a certain lack of confidence in the decision-making capacities of the National Forest Board, another new condition stipulated that 'the independence of the Forestry Board shall not be contravened or undermined during the course of the project'. At the same time, the Bank had now abandoned its previous requirement for the PNGFA to outsource at least some of its operational monitoring tasks (see Box 4.4, Condition 1.2), apparently in deference to the opposition which this proposal had encountered from AusAID, as well as the Forest Authority itself. Although the Bank still considered that the PNGFA had 'major human resource and other institutional limitations', it conceded that the project's Sustainable Forest Management component (like the Environmental Assessment and Monitoring component) would now place more emphasis on building the bureaucratic capacity to monitor corporate behaviour on the ground, with an emphasis on the assessment of outcomes rather than inputs (World Bank 1999c: 18).

Box 5.1: Conditions attached to the loan component of the FCP, November 1999 (with new conditions shown in *italics*).

1. Negotiation Conditions

- 1.1 *Announcement and implementation of a moratorium on the establishment of Forest Management Areas, granting of timber permits and issuing of extensions of timber permits until a review, satisfactory to the Bank, and with findings made available to the public, of all current logging proposals in various stages of approval indicate they are being executed in accordance with procedures outlined in the Forestry Act (1991; amended 1993) and other forest and environmental regulations and guidelines.*
- 1.2 Introduce regulations to require logging companies awarded new licenses or permits to post performance bonds, set at a level of not less than 40% of average annual operating costs for the operation in question, at minimum cut production, which would be subject to forfeiture following evidence from independent inspection of non-compliance with at least two major provisions of the reduced list of provisions (key standards) presently applied from the Logging Code of Practice.
- 1.3 On the matter of clearance and approval of agricultural conversion and infrastructure projects which imply clearance of significant areas of natural forests: the Government will rescind NEC Decision No. 59/97 and gazette in its place a new regulation which establishes unambiguously that the Forestry Board must approve the issue of timber permits or licenses to allow such clear-felling prior to project approval.
- 1.4 *Implement interim administrative arrangements immediately, to be followed by prompt legislative enactment, to hold public hearings in respect of the entering into of any Forest Management Agreement, Timber Authority for the purposes of any agricultural clearance, or road-line clearance under the Forestry Act, or the execution of any lease-leaseback agreement involving more than 500 ha of customary land, which may involve the clearance of forests. The administrative and legislative regimes should reflect a process similar to that at section 30 of the Water Resources Act giving the public at least 28 days notice of the public hearings in respect of all such activities.*
- 1.5 A competent and independent firm will be appointed, under terms of reference acceptable to the Bank, to manage log export monitoring, to be paid for with financial resources incremental to Forest Authority budget allocations, made available by the time of project effectiveness.
- 1.6 *GoPNG will reaffirm that all procurement related decisions in NG66/92 and NEC41/95 will not apply to Bank-financed projects.*
- 1.7 *GoPNG will establish the Project Management Unit, attached for administrative purposes to the Department of Planning and Monitoring, and will appoint a qualified project manager, under terms of reference to be agreed in advance with the Bank. The project manager, and other initial expenses, will be paid for by GoPNG prior to project effectiveness (GoPNG may request retroactive financing from the loan for this purpose).*

Box 5.1 (continued).**2. Effectiveness Conditions**

- 2.1 *Government to confirm the establishment of a FCP 'Supply and Tenders Board', with an award level of US\$500,000 equivalent.*
- 2.2 *A replenishable project effectiveness fund of \$500,000 will be established.*
- 2.3 *A manual for operation of the project financial management system will be prepared, the necessary training done, and the system will be adopted. A project accountant, attached to the Project Management Unit, will be appointed to manage the system.*
- 2.4 *Establish a Landowner Development Options Unit to promote the project design approach to landowner participation in land use decision-making and their involvement in projects through appropriate representative mechanisms.*
- 2.5 *Two Special Accounts in US Dollars (one for the main project, the other to cover the initial operations of the Conservation Trust Fund) would be established in the Bank of Papua New Guinea (the Central Bank), Port Moresby, with an authorized allocation of US\$1 million each, under the control of the PMU [Program Management Unit]. The Bank's initial advance into the Special Accounts would be limited to US\$500,000.*

3. Dated Covenants

By December 2000 GoPNG will:

- 3.1 *Establish instruments to acknowledge and legitimize [sic] local land use decisions. Draft and submit to Parliament necessary laws and regulations to strengthen capacity for land groups to voluntarily form legal entities to designate their natural resources as conservation areas.*
- 3.2 *Have fully operational, to Bank standards, the project financial management and control system, within the Project Management Unit.*

4. General Covenants

- 4.1 *Maintain at the 1997 (real) level the Forest Authority's operational budget. For this purpose in November of each year, commencing in November 1999, the Borrower shall, through the Forest Authority, furnish to the Bank, for its review and comments, the proposed budgetary allocations for the forthcoming Fiscal Year.*
- 4.2 *The integrity of the Forestry Act and the independence of the Forestry Board shall not be contravened or undermined during the course of the project. In November of each year, the GoPNG in consultation with the Bank will determine that any changes to forest legislation and regulations have not undermined the project's ability to contribute to sustainable forest management.*
- 4.3 *Maintain the funding and independence of the log exporting inspection operation for the duration of the project.*
- 4.4 *Maintain the effectiveness of the project financial management and control system, including all necessary updating and staff training.*

Source: World Bank 1999c: 22-24.

The Bank's concern about the recent decline of institutional capacity was also reflected in the disappearance of a previous requirement for the PNG Government to develop a 'manual of procedures' for the Landowner Development Options Unit prior to implementation of the FCP's Landowner Forest Decision-Making component (compare Box 4.4, Condition 2.3, and Box 5.1, Condition 2.4). The Bank seems to have recognised that the Department of Planning and Monitoring would not be able to meet this condition, because it was overwhelmed by a pile of other priorities contained in the SRP. Even without this condition, and despite the greater emphasis now placed on the need for effective mechanisms of landowner participation, the Bank's assessment of the risk of delay in the implementation of this component of the FCP had gone from being 'modest' to being 'significant' (World Bank 1999c: 21).

Concerns about the lack of local institutional capacity may have been reflected in the increase in the overall cost of the project, and hence the value of the loan component, as well as the government's counterpart contribution. However, much of this increase was due to the inclusion of the Project Management Unit as a new sub-component of the Landowner Forest Decision-Making component (see Table 5.1). The co-financing requirement of US\$20 million was no longer included in the project's cost estimates, firstly because this funding was now limited to the Conservation Trust Fund component, and secondly because it was difficult to predict the timing of such inputs from other donor agencies.

On the other hand, the loan conditions relating to the establishment of the Conservation Trust Fund (Box 4.4, Conditions 1.4 and 2.2) had been allowed to lapse because its board of management had been meeting for several months, and a technical adviser engaged by The Nature Conservancy had almost completed the first draft of its manual of operations. The Bank was therefore quite confident that part of the co-financing requirement would be met during the Fund's three-year demonstration phase. With this amount included in the cost estimates, the total value of the project was now more than US\$60 million over the six years of its anticipated life.

While this latest draft of the Project Appraisal Document was brought along to the Consultative Group meeting as the basis for further 'negotiation' with other stakeholders, it appears that such consultation was largely confined to the detailed design of the Sustainable Forest Management component. The result was an agreement to substantially reduce or wholly eliminate the Forest Planning and Sustainable Community Forestry sub-components. This decision seems to have been based on the Bank's recognition that other donor agencies – AusAID and the European Union respectively – were prepared to fund the relevant activities under their own aid programs.

Table 5.1: Cost estimates for PNG Forestry and Conservation Project, November 1999.

Component	Cost (US\$m)	% base cost
LANDOWNER FOREST DECISION-MAKING		
Development Options Study	3.67	10
Strengthening of Landowner Representative Mechanisms	0.92	2
Land-Group Based Conservation & Resource Management Areas	1.45	4
Project Management Unit	3.14	8
Sub-total	9.18	24
CONSERVATION TRUST FUND		
Establishment Activities	0.82	2
Commencement Activities	3.82	10
Endowment Phase	10.00	26
Sub-total	14.64	39
SUSTAINABLE FOREST MANAGEMENT		
Improved Forest Operations, Inspection and Monitoring	3.62	10
Forest Planning	1.60	4
Post-Harvest Forest Management and Plantations	2.73	7
Sustainable Community Forestry	1.89	5
Sub-total	9.85	26
ENVIRONMENTAL ASSESSMENT AND MONITORING		
Environmental Assessment, Monitoring and Regulation	3.58	9
Environmental Monitoring by Local Communities	0.75	2
Sub-total	4.31	11
SUMMARY		
Total Baseline Costs	37.98	100
Contingencies	2.16	6
Total Project Costs	40.14	106
FINANCING		
Global Environment Facility Grant	17.00	
World Bank Loan	18.07	
PNG Government	5.08	
Total	40.14	

Source: World Bank 1999c, Annex 3.

AusAID staff recognised the need to rationalise their own interventions in the forestry and conservation sector, because of concerns about national government commitment and institutional capacity which they shared with their counterparts in the Bank. These concerns led them to abandon the Highlands Forestry Project, which had been proposed by their Project Identification Mission (AusAID 1999), and to amalgamate their own Sustainable Forest Management Project with the National Conservation and Development Project, thus providing themselves with some sort of insurance against the risk that one of the two relevant government agencies might not be able to function as an effective counterpart.

At the same time, AusAID was still committed to funding the second phase of PNG's National Forestry and Conservation Action Program through the establishment of a new trust fund to be managed within the Department of Planning and Monitoring, comparable to the one which had been managed by the World Bank during the first phase. While part of this new trust fund was intended for disbursement to local NGOs, AusAID also made separate provision for funding the demonstration phase of the CTF, thus rewarding the Bank's optimism on this score. Bank staff anticipated a 'close partnership' between the NFCAP Trust Fund and the CTF (World Bank 1999c: 20), but it was not entirely clear how this would work in the absence of a NFCAP Steering Committee, and the Bank's apparent reluctance to subject the management of the FCP to any such body.⁸

Anyone who cared to peruse the list of donor-funded projects contained in the 2000 'development budget' for the PNGFA and the Office of Environment and Conservation (GoPNG 1999c) would find that government planners had only partially absorbed the outcomes of the latest round of donor consultations. They might instead find evidence of confusion arising from that very lack of consultation and coordination which Bank staff regarded as a critical weakness of the 1999 Budget (World Bank 1999b: 143). The Forestry and Conservation Project did make a brief appearance in the PNGFA's development budget, but with an allocation of less than K1 million in 2000, and without any indication of the ultimate source or even the purpose of this spending. Otherwise, it seemed to play no role in the government's short-term plans for the forestry and conservation sector (see Table 5.2).

If this was due to the fact that final Bank approval of the FCP awaited its separate approval of the structural adjustment loan, then it is not clear why it received any mention at all in the 2000 Budget Papers, unless perhaps the allocation was intended to represent the first instalment of the government's counterpart funding for the project. AusAID's three (or two) new projects were included, but its existing Forestry Human Resources Development Project had

⁸ The Project Management Unit seems to have taken over the coordinating role which the Bank had previously assigned to an 'oversight committee' (World Bank 1998d: 11).

somehow been confused with the Islands Region Environment Program.⁹ The budget allocation for the latest incarnation of the NFCAP was rather curiously allocated to the Rural Development Program, which otherwise consisted of nothing except the K143.5 million allocated to the infamous 'slush funds'. The NFCAP was simply described as an 'AusAID Funded Item' (GoPNG 1999c: 63), but its relationship to the other AusAID projects in this sector (let alone to the FCP) was not spelt out.

Table 5.2: The 2000 development budget for the 'forestry and conservation' sector.

Agency and Project	Donor	Amount (K mill.)
DEPARTMENT OF PLANNING & MONITORING:		
National Forestry and Conservation Action Plan*	AusAID (all)	2.88
Sub-total		2.88
PNG FOREST AUTHORITY:		
Sustainable Forest Management*	AusAID (all)	2.00
Forestry and Conservation Project*	n.a.	0.90
[Islands Region Environment Program]	[EU (all)]	0.55
Sub-total		3.45
OFFICE OF ENVIRONMENT & CONSERVATION:		
Mine Monitoring	EU (part)	0.83
Forest Monitoring	none	0.13
Climate Change Control	UNDP (part)	0.96
Environmental Advocacy and Data Management	EU (all)	0.85
Oro Integrated Sustainable Development*	AusAID (all)	1.17
National Conservation and Development Project*	AusAID (all)	1.17
Sub-total		5.60
TOTAL		11.93

* New projects (i.e. those not included in the 1999 development budget).

Source: GoPNG 1999c: 51, 143-153, 351-354.

None of this may matter very much, if the PNG Government was merely acting as the 'recipient' of projects designed and funded by different members of the Consultative Group, according to their own mutual understanding. On the other hand, the Bank's enthusiasm for harmonising the efforts of the donor community could hardly address the questions posed by the Bank's obvious loss of confidence in the government agencies which were supposed to host three quarters of the FCP. The Project Appraisal Document was more explicit than its predecessors in talking about the need to use the project's loan conditions as a

⁹ European Union funds allocated to the Islands Region Environment Program were previously included in the development budget of the Office of Environment and Conservation, where they should have remained. The description of this project in the budget papers (GoPNG 1999c: 354) clearly refers to the Forestry Human Resources Development Project, whose completion date had been put back to the middle of 2000.

supplement or extension to the force of any conditions attached to the SRP loan in order to achieve 'continued rigorous attention to policy and institutional reform', as well as 'major changes at the field level' (World Bank 1999c: 2). The combination of widespread rural poverty with problems of governance in the management of natural resources was seen to create a new rationale for the project as 'an attempt to go well beyond the existing policy and institutional framework, which has become dysfunctional' (ibid.: 3). Doubts about the government's absorptive capacity could not be allowed to mask or postpone the need for drastic action in the short and medium terms. And if there were doubts about the government's willingness and ability to satisfy the new set of forest policy conditions on which it had notionally reached agreement with the Bank, these only seem to have raised the determination of Bank staff to get the Forestry and Conservation Project off the ground (or into the field) as soon as possible, with or without the blessing of a renegade National Forest Board.

CHAPTER 6

FROM DEBT TO CREDIT: AUTHORSHIP AND OWNERSHIP

In this concluding chapter, we may pose a number of questions relating to the authorship and ownership of forest policy and conservation policy in PNG during the course of the decade since the World Bank answered the national government's request for assistance through the TFAP. What has the Bank achieved by its intervention? What have national policy reformers achieved by securing the Bank's support? Has the use of adjustment loan conditionality proved to be more or less effective than other strategies which might have been adopted, by the Bank itself or by other stakeholders, in order to achieve the rather nebulous objective of 'sustainable forest management'? And finally, what can be said or expected, by way of an epilogue, concerning the future of this strategy under the new Morauta government?

Ownership and impact of the Economic Recovery Program

Let us first review the manner in which the Bank came to apply structural adjustment loan conditions to the defence and continuation of forest policy reforms which had already been set in place through the grant-funded project approach embodied in the NFCAP.

As we have seen, the TFAP review process coincided with a fiscal crisis which followed the closure of the Panguna copper mine by militant landowners and secessionist rebels in July 1989, but it also answered a request for Bank assistance which could be taken as evidence of the government's own commitment to forest policy reform. The policy reformers inside the government had no reason to signal a lower level of commitment by asking the Bank to link its structural adjustment loan to the pursuit of their 'own' program of action, and the Bank had no reason to question that level of commitment by insisting on such linkage, when it was merely answering a call for help which had no obvious connection with the Bougainville rebellion or the government's subsequent cash crisis (see Box 6.1). While the Namaliu government made some effort to abide by the economic conditions attached to a structural adjustment program in 1990, its successor was able to escape these constraints by virtue of a windfall in petroleum revenues. On the other hand, while the forest policy reformers in the Namaliu government needed some help from the Bank and the rest of the donor community to achieve their aims, the presence of a crusading Forests Minister in the spendthrift Wingti government made their task much easier. The irony or paradox is that the leverage required to defend their achievements was derived from that same government's failures on the macroeconomic front.

Box 6.1: The lack of structural adjustment during the first phase of the NFCAP.

In the five-year period from 1989 to 1994, the national government fell victim to the political psychology of resource dependency, as it completely lost its earlier capacity to stabilise patterns of public expenditure in the face of huge annual fluctuations in its mineral revenues.

The first fiscal crisis followed the closure of the Panguna copper mine by militant landowners and secessionist rebels in July 1989. In its last full year of operation, this one mine had been responsible for 8 percent of GDP, 35 percent of export receipts and 12 percent of government revenue. The sudden loss of this revenue caused the government to seek a structural adjustment loan from the World Bank, whose conditions included a 10 percent devaluation of the kina, a 7.5 percent cut in public spending, a public sector wage freeze, the reduction of minimum wage rates across the board, and the removal of various import restrictions.

However, the need for this first round of structural adjustment was just as suddenly removed in 1992, when the government began to collect substantial new revenues from the Kutubu petroleum project, which more than made up for its earlier losses on Bougainville. Apparently flush with cash, the government then embarked on a spending spree which was meant to 'kick-start' the rest of the national economy, but which rapidly produced another fiscal crisis. By the first half of 1994, the budget deficit had risen to 11 percent of GDP. By September that year, there was a major squeeze on external reserves, which required a substantial devaluation of the kina. Although the budget deficit was reduced to 0.5 percent of GDP in 1995, GDP contracted by almost 3 percent in the non-mineral sector, annual inflation rose to 16 percent, and the government's debt service payments also rose substantially.....

It was the fiscal indiscipline of the Wingti government, from 1992 to 1994, which provided the World Bank with the leverage required to prevent the Chan government from reversing the progress already made in the rationalisation of the forestry sector, and force it to impose the new fiscal regime which transformed the distribution of resource rent derived from the log export industry. And this use of the Bank's bargaining power, within the context of structural adjustment, reveals the central paradox of the aid relationship – that the continued exercise of such power depends on the continued crisis of governance which the donors are supposedly attempting to resolve.

Source: Filer 1998: 46-47, 348.

Those achievements had to be defended by the Bank because the Chan government was far more friendly to the logging industry than either of its predecessors. A further irony ensued from the relative success of the ERP, in macroeconomic terms, because this initially created the 'space' for the Skate government to defy the Bank completely. But after a year of defiance, the pendulum had swung back in the Bank's favour, and this time there was no immediate prospect of a mineral windfall which would enable the Skate government to live beyond its means for much longer. Even if the Bank had managed to sustain the level of donor coordination which existed in the period from 1990 to 1994, the 'program and project' approach would no longer have been adequate to deal with the balance of forces represented in the Chan and Skate governments. Even if the Bank had other reasons for combining adjustment loan conditionality with the design of the FCP, this kind of cross-

linkage would seem to be essential in such an erratic political environment. This does not necessarily mean that it will be effective in the longer term, but there is no alternative approach which would seem to make more sense.

Given the stalemate which arose between the Bank and the Skate government, and the real possibility that Skate might have been successful in orchestrating the survival of his government beyond the end of 1999, how effective was the ERP as a device for linking the defence of long-term forest policy reforms with the short-term goal of 'economic recovery'?

The Bank's own Task Manager, Pirouz Hamidian-Rad, measured the short-term success of the ERP with the usual economic indicators: a 2.2 percent increase in GDP from 1995 to 1996; the achievement of a small budget surplus, equivalent to 0.6 percent of GDP; the decline of real wages by 12 percent; the achievement of various trade liberalisation objectives; and acceleration of the government's privatisation program (World Bank 1997a). His own 'intensive supervision' of the program, which was meant to avoid the pitfalls of the previous structural adjustment program, was also held to have 'deepened the dialogue' between those stakeholders who were prepared to oppose the 'vested interests' which sought to undermine the new forest revenue system and tariff policy reform.

However, implementation of the program was delayed by a number of separate factors:

- initially, the lack of public awareness and limited consultation between the Bank and national stakeholders caused it to be seen as an external imposition on the government by the donor community;
- the new system of provincial and local-level government was not foreshadowed in the design of the program, and was itself so poorly designed that its own implementation became an obstacle for the ERP;
- the national government's institutional capacity was disrupted by political struggles over the relationship between its central financial and planning agencies; and finally
- the government's 'weak ownership' of the program was manifest in its general record of backsliding and mismanagement.

In light of what has happened since, we may note that Hamidian-Rad himself saw the 'politicisation of the public service' as the main reason for the loss of institutional capacity, and the government's lack of 'ownership' as the main factor jeopardising the program's sustainability.

The *growing profile* of the 'sustainable development' conditions during the life of the ERP could perhaps be seen, in retrospect, as a rather cynical ploy by the Bank (or its Task Manager) to win over the support of 'civil society', rather than being the product of a genuine belief that these conditions were central to the whole package. That is not to impugn the sincerity or determination of those regional Bank staff (most notably Marianne Haug and Jim Douglas) who advocated the strategy of 'environmental adjustment' from the outset. However,

this was still a novel strategy within the context of an economic stabilisation program, and one whose value as a 'public relations' tool might not have been appreciated by the macroeconomists in the Bank until the unexpected fuss about 'land reform' had pushed their backs to the wall.

There is little evidence that the Bank made any special effort to consider the impact of the whole structural adjustment process on the forestry and conservation sector, and a good deal of evidence that other features of the ERP were regarded as far more critical to its success. One may recall that Hamidian-Rad was (in his own words) 'kidnapped' by rioting students in July 1995, and might not have seen the pure light of environmental sustainability until this particular point on his road to Damascus. His approach to both forest policy reform and 'community consultation' in the wake of the 1999 Budget would seem to confirm this view, since both pursuits were then notably absent from his freelance vision of structural adjustment. Once 'civil society' had been brought to heel, and the Bank had been left to stew in its own moral juices, it was no longer necessary to sweeten the bitter pill of public spending cuts with the sweet taste of sustainable forest management.

This leads us to another pair of questions, to which the answers are not as obvious as they might seem. Why did the Bank insist on humiliating the Chan government in September 1996, when this was bound to cause a further diminution in its sense of 'ownership'? And why did the Chan government actually give in at the last moment, when so many other governments have managed to defy the Bank and get away with it?

Hamidian-Rad's personal predilections and tough negotiating style were only one part of the equation. The Bank had certainly raised the public profile of the forest policy conditions to the point at which its allies in the national bureaucracy (if not the NGO community) could make them seem like the key to PNG's success in the whole process of structural adjustment (see Box 6.2). Yet there was still a view within the Bank (as well as the IMF) that the government had already made enough concessions over the larger package to fit the criteria for a reasonable level of 'borrower ownership', and that further pressure would only be counter-productive. Several compromise deals had already been made on the forest policy conditions, as on many other elements of the total package, and both sides could have carried on down the same road. Waivers were sought and obtained from the Bank's Board on a number of other loan conditions with which the government had failed to comply. The victory of the Bank's 'hardliners' at this juncture seems to have depended on a concerted effort by the Country Director to persuade other senior Bank staff that a firm defence of the green line embodied in the forest policy conditions would send a very appropriate message to those national politicians who thought they could get away with proverbial murder, and perhaps even to those members of the international community who were waiting for the Emperor to prove its possession of some new environmental clothes.

Box 6.2: Letter to the *Post-Courier*, 23 August 1996.

Public servants asked World Bank for the forestry condition

Our great political leaders say that the World Bank are challenging our sovereignty by insisting on a loan condition that the integrity of the Forest Authority Board be maintained. Let's look at the facts.

The Forest Authority was established as an autonomous body to be free of political interference after the Barnett Inquiry found massive political corruption under the previous system. Remember that many of our esteemed politicians were implicated in the dirty dealings.

The World Bank has been heavily involved in assisting the restructuring of the forest industry since 1989. It helped fund the establishment of the Forest Authority, the development of the Code of Logging Practice and many other 'good' things. These were all done to assist PNG – not to direct it.

All of the forestry conditions associated with the World Bank Structural Adjustment Package were developed by our own senior public servants – they requested the World Bank to adopt them as conditions of the loan to make sure that they were put in place.

The condition for maintaining the integrity of the Forest Authority Board is a good example. The Politicians want a compliant Forest Board so that they can hand out Timber Concessions to their Foreign Timber Lords.

On behalf of the responsible public servants, the World Bank tried to help prevent the forest industry slipping back to the bad old days of bribery and corruption.

They almost succeeded. Chan, Haiveta and Baing have all signed letters over the past year agreeing to maintain the integrity of the Board – it just shows that their words and signatures mean nothing.

It is these great politicians who have challenged our sovereignty by selling out to the Foreign Timber Lords.

Our political masters will get rich you can [be] sure – but what about the rest of the country?

Our politicians have shown the world that they are deceitful and not to be trusted – who can blame the World Bank and our other donors from leaving PNG to its own fate?

God Save PNG – he's all we have left!

Political Slave, Waigani

By this time, the key members of Chan's governing coalition were far more concerned with the prospects of their own political survival at the forthcoming national elections than with any shift in the Bank's global approach to environmental management issues. The Prime Minister and Finance Minister both knew enough about the 'fundamentals' of macro-economic management to realise that they had a good chance of presenting themselves as the saviours of the PNG economy if the ERP could be brought to a successful conclusion. Their sense of urgency would have been exaggerated by the government's failure to achieve a settlement of the Bougainville crisis, on which Chan himself had previously laid great hopes, and which would soon contribute to the loss of his own seat in Parliament (Dorney 1998). By comparison with these momentous issues, neither man could see the maintenance of a large bundle of red tape

surrounding the log export industry as a positive contribution to their own political careers.

It may have seemed, at the time, that the Bank was able to exploit the division between Chan and Haiveta (and their respective parties) in order to achieve its last-minute triumph. But the deeper problem, which had been evident from the start of negotiations over the ERP, was that most government ministers had 'policies' (if such they can be called) which no one minister, even the Prime Minister, could possibly combine into a single integrated package. The Bank did not have to bother practicing 'divide-and-rule' tactics against the Chan government because, like all other governments since Independence, and like most 'resource-owning communities', it was already divided to an extent which actually hindered the achievement of the Bank's objectives. The previous history of the ERP had proved this basic point about the problem of 'governance' in PNG. No sooner has one minister been brought into line than another one steps off the rails. Then they get reshuffled, and the whole process starts again. Which may explain why the Bank sent a 'head-banger' to supervise the program. How then should one assess the significance of the 'PHR factor', once the head-banger had crossed the floor?

Hostages to fortune

It is certainly hard to see how this particular change of fortune can be accommodated by the kind of comparative statistical analysis by which staff and students of the Bank are commonly inclined to evaluate the effectiveness of its policies (see Johnson and Wasty 1993; Killick 1998), but the Bank clearly had good reason to be embarrassed. According to our sources, Bill Skate asked the Bank if he could 'borrow' Hamidian-Rad, and although this arrangement is not without precedent, the Bank denied the request. At the time of his 'defection', there were several Bank staff and PNG technocrats who were sufficiently impressed by his performance as a 'holy warrior' during the period of the ERP that they could not see the point of this decision. The man himself still maintained that he was only doing what the Bank wanted to do, and was doing it more rapidly and vigorously (or viciously), in his capacity as an 'insider', than any Bank staff could have managed in their role as 'outsiders'.

Aside from any consideration of power struggles within the Bank, on which we cannot pretend to be experts, it seems to us that some influence was exerted by those same members of the PNG political and social elite who had previously pushed for a hard line to be taken against the Chan government, and who were troubled by evidence of even greater 'corruption' within the Skate government at the time when Hamidian-Rad's 'transition' was negotiated. Perhaps they were also troubled by the role which Peti Lafanama (as a member of the governing coalition) had taken in negotiating a deal which could be seen as a typical Melanesian 'payback' for the assistance which Hamidian-Rad had (perhaps unwittingly) provided for his own election campaign in 1997.

By the time that he came to write the 1999 Budget, the Chief Economic Adviser was inclined to the belief that he could take the FCP 'hostage' in order to force the Bank to back down on its '41st condition' (his own removal) before releasing the first tranche of the SEDP loan. The reckoning behind this tactic was that the Bank would have to press ahead with the FCP in order to satisfy some of its key partners in the international NGO community.

One of these partners, The Nature Conservancy, subsequently cast some doubt on the validity of this tactic by advertising its own belief that the first round of GEF funding for the Conservation Trust Fund, which is the FCP component dearest to the hearts of the NGO community, could be released without the government's acceptance of any loan condition. In April 1999, Bank staff were still maintaining that this was a purely theoretical possibility, because it would require a special waiver from the GEF Board, and the Bank had no intention of seeking one at that stage. The calculation in the Bank was that the NGO community's impatience on this score would only add to the existing pressures on the PNG Government to come to terms with all the Bank's conditions for the FCP and SEDP. This followed from the point which had been clearly stated in the latest IMF report, and also from simple observation in the streets and villages of PNG, that the structural adjustment program had run completely off the rails because Hamidian-Rad (even as an insider, or especially as an insider) could not control the Prime Minister.

The 'PHR factor' may be significant in another way, because it shows that the 'head-banging' approach can work quite effectively with a small number of heads, but because those heads are not attached to any arms and legs, and because they keep bobbing up and down like funfair targets, the long-term results, and the impacts felt outside the narrow and congested corridors of power, may be quite minimal. It also confirms the self-evident truth that PNG politics is the politics of personality, and not of policy, so the personal goals and strategies of those individuals who happen, for a while, to occupy the commanding heights of the state are the key determinants of 'government policy'. So the only constant feature of the political system as a whole, as indicated in Hamidian-Rad's own report on the ERP, is the continual decline of any institutional capacity to formulate and implement such policies by reference to a clear conception of the 'public interest'.

Which leads us back to the other question posed in the same report, which is also one of the critical issues addressed in this study – the problem of 'borrower ownership'. Leaving aside the question of Hamidian-Rad's own role in the production or destruction of this commodity, we need to ask whether the Bank's increasing reliance on the use of adjustment loan conditions reflects a fundamental shift in the pattern of support for forest policy reform within the country as a whole. If it is fair to say that PNG has a 'donor-driven forest policy process' (Filer 1998), does this statement now carry more or less weight than it did ten years ago?

The basic problem with the concept of 'borrower ownership', at least in the PNG case, is the assumption that a 'government' possesses the unity of purpose which would allow it to act as a single stakeholder in any process of policy reform. In the PNG case, there is ample evidence that public servants have collaborated in the design of policy conditions attached to structural adjustment loans in order to control the erratic behaviour of their political masters. National politicians have little or no 'ownership' of conditions which pose an obvious threat to their own personal control over various fingers attached to the executive arm of government. The bureaucrats, for their part, are sometimes driven into the arms of the Bank, because the Bank's policy prescriptions simply represent the lesser of two evils, or because reformist elements in the bureaucracy know the Bank's own agenda, and therefore know which of their own prescriptions will be most acceptable to Washington.

The only common approach to questions of national policy which can normally be detected in Cabinet, let alone in Parliament, is a desire to widen the scope for those rent-seeking and pork-barrelling activities by which individual politicians can satisfy the whims of their own clients and constituents. The continual increase in the proportion of government revenues which are spent at the personal discretion of cabinet ministers, provincial governors, and other national MPs, is evidence of their success in this pursuit. The parallel increase in the rate of turnover in all senior bureaucratic positions which are subject to ministerial appointment reflects a combination of political patronage and political instability, as successive Prime Ministers have learnt that the best way to consolidate their own position is to constantly reshuffle their Cabinets, and each new minister normally applies the same principle to any other executive office which lies within his immediate reach.

While the recent concentration of executive power in the hands of a former World Bank official might seem to indicate a singular commitment to reform on the part of a Prime Minister who had apparently perfected the art of self-preservation, the Skate government's 'economic policies' were primarily designed to eliminate any further bureaucratic challenge to the use of state assets and revenues to sustain a burgeoning system of political patronage. Reformist elements within the bureaucracy were thus obliged to pay an ironic price for their reliance on a fairy godmother living in Washington. The retrenchment exercise promised in the 1999 Budget was only the last (or next to last) straw in the deconstruction of the public service which Hamidian-Rad lamented in his Implementation Completion Report for the ERP.

A critical point which is often (and understandably) overlooked in studies of national government policy since Independence is the number of expatriate contract officers who continued to exert a major influence over the formation and implementation of specific policies. One of the reasons for their continued presence and influence was the high rate of occupational mobility amongst their national counterparts, some of whom moved into politics, while others moved into the private sector. When one speaks of bureaucratic or technocratic ownership of forest policy reform ten years ago, or even five years ago, one is

still speaking of a business in which these expatriate public servants were able to represent the 'public interest' in a manner which was not available to any donor-funded consultant. This expatriate component of the public service was retained by means of a 'dual salary system' which enabled its members to feel that they were fairly well rewarded for their devotion to the cause of saving PNG from the unpleasantness of the 'African experience'. Any account of the transformation of 'governance' in PNG over the last decade would have to include a story about the declining size and influence of this 'foreign body'. In the final months of the Skate government, it looked as if this story had almost come to an end, either because the country could no longer afford the luxury of this alien elite, or else because one very expensive 'foreign adviser' would prefer to have no competition.

In either case, the 'politicisation of the public service' over the past decade has drastically reduced the number of individuals – national or expatriate – who are willing and able to supply the World Bank with reasons to claim that it has 'borrower ownership' when it does not have the support of national politicians and their very personal advisers. Of course, the steady exodus of expatriate 'technocrats' over the past decade (as well as the one which preceded it) should hardly have surprised the Bank or any other foreign agencies which relied on these individuals to articulate the 'real' policies of the national government. The changing social composition of indigenous elements within the bureaucracy was obviously harder for outside observers to interpret, but the simple passage of time has meant that a generation educated in the 'old values' of Australian colonial paternalism has made way for a younger generation educated in the 'new values' of Melanesian independence.

Adjustment to local realities

Given the deconstruction of the public service which has taken place over the past decade, and the consequent loss of national capacity to integrate policies and programs, can we say that the Bank has maintained a consistent strategy in respect of forest policy reform during the same period? Or have its interventions been guided more by passing global fashions, from the TFAP to the carbon offset market, than by any deep appreciation of the situation 'on the ground' in PNG?

It appears that the Bank's most consistent aim during that period was to distribute the 'resource rent' from export logging in a manner which would be consistent with its own vision of equity, efficiency and sustainability, while its allies in PNG were rather more concerned to apply a series of institutional brakes to the allocation of new timber permits, and to control the various forms of 'malpractice' revealed by the Barnett Inquiry. While the Bank increasingly came to support this 'national agenda', it also had some trouble in articulating this support with its own free trade principles, and with the PNG Government's push for more 'development' and larger revenues.

Furthermore, a lack of clarity about the ultimate aim of forest policy reform was accompanied by a lack of coherence in the strategy adopted to achieve it.

This is evident in the lack of any clear articulation of the relationship between the different forestry-related loan conditions enunciated in the period from 1995 to 1998 – most notably between the design of the revenue system, the search for greater ‘landowner participation’, and the imposition of ‘sustainable management’ standards (see Box 6.3). This lack of coherence relates to the well-known ‘Christmas tree’ problem with loan conditionality (see Mosley et al. 1995: 43), and this problem could only be exaggerated by the lack of coordination between the borrowing government’s own agencies, each of which has had its own wish-list for Father Christmas.

Box 6.3: What was the new forest revenue system really designed to achieve?

It is interesting to ask whether the Bank’s determination to secure implementation of the new revenue system has been motivated by a belief that this is the best (and perhaps the only) way to achieve the ‘slow-down’ which Barnett had recommended in 1989, or whether it is motivated by considerations of equity and efficiency which may or may not be consistent with a move towards ‘sustainability’. Although the policy reformers have applauded the World Bank’s apparent concern to raise the share of resource rent which ends up in the pockets of local landowners, they have generally failed to comment on the possibility that such an increase in landowner revenues will provide an additional financial incentive for landowners to applaud the unsustainable exploitation of their own forest resources. The proposed absorption of the reforestation levy into the Project Development Levy may likewise be seen as a way of discouraging the local pursuit of sustainability, even if the Forest Authority has not previously found a good use for it. The reformers have tried to square this particular circle by suggesting that landowners have not previously possessed the knowledge, or perhaps even the power, to make a ‘rational’ response to market signals, but it is not at all clear whether other stakeholders have now developed the capacity to convince landowners that the short-term financial gains from large-scale logging carry a long-term price which ought not to be paid by future generations or the global community.

Source: Filer 1998: 218-221.

The suggestion that the Bank originally thought of the NFCAP as a two-stage program, which would first deal with questions of government regulation, and later with questions of landowner participation, seems to be a somewhat convenient rationalisation of what actually happened, and one which only came to be made after the NFCAP Review at the end of 1994 (Taylor et al. 1994). After all, a ‘Landowner Awareness and Support Project’ was already embedded in the original TFAP design, and the designers could not have known in advance that the funding agency (GTZ) would not even begin to implement the project until the first phase of the larger program had been completed. Likewise, the creation of an ‘umbrella organisation’ for environmental NGOs was a move quite strongly supported by the Bank in 1989, and the Bank would not then have been planning the long delays which actually afflicted the dispensation of NGO funding from the AIDAB Trust Fund.

Part of the problem, as one bureaucrat has pointed out to us, is that the Bank prefers to look at the ‘big picture’, not at the details, but the devil is in the details, and the bureaucrats are often left to sort them out. The Bank’s interventions in

PNG's forest policy process have sometimes sought to deal with the details in the bigger picture, but the view from Washington is one in which it is not always possible to tell which details merit close attention, and some of those which did merit close attention seem to have been overlooked. If, for example, the Bank had given sufficient thought to the problem of how to bring existing forestry projects into line with new policy measures during the period of the Wingti government, then it would have realised that the National Forest Service could not possibly be expected to accomplish a meaningful 'review' of these existing projects with the limited human resources available to it. In other words, the Bank's 'big ideas' can quickly turn into a set of expectations which only cause frustration and diversion within the bureaucracy.

The same argument may be applied to elements of the FCP, especially the 'landowner involvement' component, which even AusAID thinks is far too ambitious for the volume of resources committed to it and the institutional structures within which it is supposed to operate. Likewise, it seems that major ingredients of the Bank's 'big picture' on regional forestry issues are applied quite indiscriminately to all the countries in the region, regardless of major variations in their social and political complexion. For example, the 'sustainable development' conditions attached to the ERP loan in PNG were remarkably similar to those which had previously been attached to another loan which was rejected by the Indonesian government (Ross 1996: 177). While the Bank seems to have shown a somewhat finer appreciation of the 'details' of the national policy process in formulating the conditions attached to the FCP and SEDP loans, it was still talking up the rather fanciful belief that carbon offset (or 'joint implementation') schemes would henceforth hold the key to PNG's forest conservation strategy, and this could surely be regarded as a triumph of global fashion over local social realities (Filer 1998: 307).

The deconstruction of the PNG public service has also served to enlarge the space for donor-funded consultants to ply their wares, not just in policy formation but also in routine administration and project implementation. Some of these consultants belong to the Bank, but a far greater number belong to AusAID, as a result of the latter's shift towards tied aid over the course of the past decade. Given the prominence of this one agency within PNG's 'donor community', one therefore needs to ask whether this presence represents a constraint on the Bank's ability to use its loan conditions as a mechanism of control over the PNG Government (see Box 6.4).

Box 6.4: The 'tough cop' and the 'soft cop'.

It is fairly clear that the World Bank's interest in PNG's forest policy process has been driven by the belief that donors can exert greater collective leverage over this process than could be achieved in any of the other countries in the Asia-Pacific region which still have so much natural rainforest available for conservation or sustained yield management. In other words, the donor dollar ought to save more trees in PNG than it can save in larger countries, where the leverage is limited, or smaller countries, where the trees are not so plentiful, or many countries (large and small) which have already lost a larger proportion of their natural forest resources through past mismanagement. The Australian dollar is especially significant in this respect, because the total value of Australian aid to PNG still exceeds 20 percent of the PNG Government's total revenues, and although the size of this benefit package diminishes with each passing year, an increasing proportion of it is tied to specific sectoral development programs, as the element of general budget support is phased out....

What this means, in effect, is that the main feature of donor leverage over the national policy process is a sort of double act between AusAID and the World Bank, where each relies on the other to exert specific forms of power, while other donor agencies play walk-on parts and keep their exit options open. The World Bank functions as a broker, selling specific parts of the national policy process to these minor actors, while selling the prescriptions of a 'global' donor community back to the PNG Government. This helps to reduce the friction generated by Australia's use of tied aid to fund a small army of Australian consultants, whose 'advice' to the PNG Government is readily construed as a form of neo-colonial domination. Australian tied aid gravitates towards the implementation of 'institutional strengthening' projects because these hold little attraction for other donor agencies with lower levels of commitment to the more intransigent problems of governance in PNG. At the same time, the Australian government has asked or allowed the Bank to administer that part of its aid program which is dedicated to strengthening the hand of local NGOs in the forest policy process, because it acknowledges the Bank's need to secure wider public support for the conditions imposed on the PNG Government under the Structural Adjustment Program. The Bank polices macroeconomic policy, while AusAID strengthens the Police Department. Such is the agreed division of responsibilities.

Source: Filer 1998: 343-5.

It could certainly be argued that the sheer size of the Australian aid program provides a 'get-out clause' for the PNG Government, because of the commitments embedded in the Development Cooperation Treaty, and because of the fact that this is still 'grant aid' with no strings attached, except for the requirement that most of it be spent on Australian consultants. A government which knows it can rely on foreign aid to fund the policies which matter may take this as an excuse to divert its own tax revenues to less worthy causes, like the Rural Development Program (see Hunt et al. 1999). Hamidian-Rad may well have been thinking about Australian aid to PNG's forestry and conservation sector when he considered taking the FCP 'hostage' in an effort to lever the SEDP loan out of the Bank.

Nevertheless, the overall size of the Australian program has been diminishing, and the Australians have normally backed the Bank to the hilt on

major policy issues. As the tied aid program is subject to periodic review, the PNG Government has some reason to worry about the domestic pressures in Australia for further reductions in its share of the total Australian aid budget. The Bank's concern is not so much with the government's level of dependence on Australian aid, but rather with the government's level of commitment to policies whose implementation is left to donor-funded programs and projects, and that is presumably why the Bank has recently expressed its own preference for 'conditional budget support within a medium-term spending framework' (World Bank 1999b: 238).

Whatever its relationship with other members of the donor community, one also needs to ask whether the Bank would have made more progress with forest policy reform in PNG if it had adopted a less antagonistic stance towards the log export industry. One of the Bank's own consultants once described the Bank's attitude to logging companies in PNG (and also the rest of the region) as one which assumes that they are a bunch of slippery rogues who run around too fast, and need to have their feet firmly nailed to the floor by whatever policy measures might seem to be appropriate. This attitude would appear to be partly justified by the Bank's growing desire to secure the sympathy and understanding of environmental NGOs. Nevertheless, there still seems to be a recognition, even within the 'new' Bank, of the danger of falling between two stools, which in this case means a more explicit commitment to phase out raw log exports (as propounded in the 1993 Guidelines) and a more concerted effort to create an effective body of incentives for industrial self-regulation. If one of these objectives is unrealistic or unacceptable, then more attention should be paid to the other one, and the Bank's recent acceptance of the need for a moratorium on new timber concessions would seem to indicate the direction of its preference.

Pulling the guinea pig's tail

One might even be led to wonder why the Bank pays so much attention to such a small and recalcitrant country, when PNG could not even be described as the sort of 'basket case' which needs to be saved from the brink of mass starvation or civil war.¹ We know that there has been a long debate about the merits of lending to countries of different size and different levels of national income, about the extent to which these variables influence the extent of 'borrower ownership' and the extent of the Bank's willingness to allow the borrower to get away with breaches of loan conditionality. We also know that PNG does not rank very highly in the Bank's list of regional priorities, except insofar as it can be presented as a 'special case' because of its wealth of biodiversity.

If biodiversity is the basic reason for the Bank's persistence, perhaps it deserves a much higher profile in the overall design of the structural adjustment program. However, this would seem to entail an even greater emphasis on the

¹ The World Bank normally leaves the smaller Pacific island nations to the ministrations of the Asian Development Bank, and PNG is not so large a country that it could not be consigned to the same basket of small fish.

use of loan conditions to achieve environmental outcomes, in a context where other stakeholders are liable to argue that long-term grant funding is a better way to finance long-term conservation objectives. The design of the FCP, as a hybrid animal nested within the Policy Matrix of the SEDP and the SRP, with a long-term loan component subject to the dictates of Adaptable Program Lending, would appear to represent a sort of compromise solution to this problem, but one for which the maintenance of 'borrower ownership' could still be highly problematic.

So how tough can and should the Bank get with its conditions on loans to PNG? Are there conditions which should have been imposed long ago, but for which the Bank was simply not prepared to expose itself to massive domestic political opposition?

The most obvious of these would be the abolition of political 'slush funds', and perhaps also the reform (or reconstruction) of the provincial and local system of government. The cultivation of 'civil society' since 1995 might be seen as a way of gradually building a level of popular support that would enable the Bank to finally put the politicians back in their boxes. But the Skate government demonstrated that the pork barrel itself may be no less effective in achieving a certain sort of 'grassroot' support. Indeed, the transposition of Pirouz Hamidian-Rad from one side to the other only made it look as if the Bank and the government had been competing for the popular vote by means which were really quite similar – namely 'handouts'.

But if the Bank had to persuade the government to hand out funds to NGOs with a label which explained that the Bank was really responsible for the government's apparent generosity, then it was entering a game which it could hardly hope to win. Whatever the truth of the assertion that NGOs, or other agents of 'civil society', are more effective and less expensive than government agencies in the service delivery business, the fact remains that the Bank is a bank, not a charity, and that it lends money to governments which have to be persuaded to spend it wisely and repay the interest. The trouble with the government in PNG is that ministers insist on turning every form of social service delivery into a form of 'political donation', and it is hard to see how any type of loan condition can prevent them from doing so.

What the PNG Government clearly needs is a serious dose of institutional stability. The Bank's interventions in the forestry sector have certainly helped to achieve this objective, but if it is not pursued on a far broader front, especially in respect of financial and planning institutions, then the payoff is greatly diminished, even with respect to forestry itself. In this case, there is a risk that the principle of 'subsidiarity' may lead the Bank to collude in forms of privatisation, devolution and delegation, both inside and outside the forestry sector, which will only enable politicians to purchase the assets or capacities of the State at grossly discounted prices, without any tangible improvement in the nation's welfare. This certainly seemed to be the direction in which the Skate government was pushing the process of 'structural adjustment', with or without

the Bank's beneficent supervision, and the Bank's renewed emphasis on the values of 'good governance' acknowledges the risk that simple macroeconomic prescriptions may only conjure up new forms of 'bad governance' if their implementation is not accompanied or preceded by a comprehensive program of institutional reform.

If one dares to ask what might have been the Bank's biggest mistake in its application of adjustment loan conditions to the business of forest policy reform in PNG, then some might say, with the benefit of hindsight, that it must have been the appointment of Pirouz Hamidian-Rad as the ERP Task Manager. But we would rather point to the failure (which was partly his failure) to understand the dynamics of what the Bank calls 'civil society' in PNG, especially after the big fuss about land reform.

There are few Bank staff who have the length of in-country experience to understand 'PNG politics', and some have exhibited an almost wilful refusal to do so. But part of the trouble may lie with the simplified representations of Melanesian society which have to be passed around in order to justify the Bank's intervention in certain policy domains, or to facilitate the dialogue between the Bank and other groups of stakeholders. Although Bank specialists know well enough that village politics is just as much an obstacle to forest policy reform as anything observed in the central corridors of power, the image of PNG which appeals to some sections of the global environmental lobby often remains an image of 'virgin tropical forests' inhabited by 'innocent indigenous peoples'. Likewise, the Bank's engagement with 'civil society' can all too easily be linked to the assumption that there is a sphere of innocence and sincerity, beyond or below the corrupting corridors of power, in which people prefer to do good works than to play bad politics. However, while the strength of the subsistence economy may provide a sort of 'safety net' to mitigate the negative impact of structural adjustment on the more 'vulnerable' sections of the population, a nation of rent-collectors may still hanker after government subsidies, political handouts, and restrictive business practices (Filer 1998: 48).

How, then, should we expect the Bank's intervention to reconcile these images and realities? The environmental section of the national NGO community (or of 'civil society') still consists of a fairly small group of individuals. It is certainly a much larger group than the one which existed ten years ago, but not large enough to be 'representative' of a broad spectrum of 'public opinion', let alone the majority of 'resource owners' in and around the coveted forests. The Bank's practice of holding separate discussions with bureaucrats and NGO representatives may seem to be an essential precondition for both to develop a discrete sense of 'ownership' over the substance of major policy reforms, but it also places the Bank in an intermediary role which may actually heighten the level of distrust between its two sets of dialogue partners, instead of fostering a sense of common purpose.

This does not mean that the Bank should be held responsible for the lack of trust which still exists. However, there was a period in which its struggle to

engage with 'civil society' on all aspects of the structural adjustment process was obstructing the development of those specific forms of dialogue which were more appropriate to the forestry and conservation sector. And this was followed by a period in which the Bank's engagement with a smaller group of environmental advocates has been offered to the government as rather dubious evidence of broad popular support for the reform of forest policy.

It is true that the focus on 'civil society' could also be seen as an unavoidable reaction to the long-term deconstruction of the public service, and the consequent recognition that the few remaining technocrats could no longer control the direction of public policy, even with the Bank standing behind them. But in its pursuit of lovers who play hard to get, the Bank may well be throwing good money after bad, by allowing itself to be pushed around by those NGOs which do not, and never will, share any commitment to the general concept of structural adjustment. This again might be compared with a lending strategy which says that the Bank should lavish its attention on the most recalcitrant governments, in the vague expectation that this will finally make them mend their ways. Perhaps the problem here is that the Bank wants to create a 'united' form of civil society which can bring more pressure to bear on an internally divided political regime, but that would seem to be a somewhat unrealistic expectation.

Is it then true, as the former Finance Minister implied in 1996, that PNG has been used as a 'guinea pig' for a certain approach by the Bank to the development of its adjustment lending strategies? There is certainly some evidence to indicate that the Bank's current President, James Wolfensohn, took a personal interest in 'using' PNG as a test case or 'prototype' for a new kind of engagement with the NGO community or 'civil society'. But if this innovation occurred because of the protests over 'land reform' in 1995, one would have to ask whether it actually made any difference to the negotiation of forest policy reform with national stakeholders (including the NGO community), and whether the NGO community now has more or less influence over any policy domain (including forest policy) than it had back then.

During the two years of the Skate government, it would have been hard to give a positive answer to either of these questions without some serious qualification. The extra time which Bank staff spent talking and listening to environmental NGOs, both in PNG and the USA, had no immediate impact on public discussion of forest policy reform in PNG, which was less prominent and less heated than it had been five or ten years previously. The lead-up to the 1997 national elections and their rather sorry aftermath also showed that the so-called 'advocacy sector' is as divided as it is politicised, that 'big issues' come and go with the same speed as government ministers and senior public servants, and that the borderline between the 'state' and 'civil society' is as fuzzy as it is porous. If the 'politicisation of the public service' was a major constraint on the success of the ERP, then the 'politicisation of civil society' was also one of its more ironic outcomes.

Perhaps the Bank would like to take some credit for the fact that the Skate government's 1999 Budget allocated a sum of K15 million to NGOs through the 'Targeted Community Development Program', which was originally set up as the executive arm of the 'semi-political' PNG Watch Council, despite the fact that this measure was taken by a renegade Bank official whose role in government was not even acceptable to the Bank. But then one would need to ask (like those Opposition MPs who were still waiting for their 1998 'slush funds') how much of this money was actually spent on purposes which would fit the Bank's understanding of 'civil society', subsidiarity and service delivery, once it had been turned into an appendix of the 'Rural Development Program'.²

The Christian churches, which really do constitute the backbone of 'civil society' in PNG, were remarkably slow to applaud the actions of the Skate government on any front, and the 1999 Easter message from the Catholic Archbishop of Port Moresby prophesied blood in the streets if it were not removed from power (*Post-Courier*, 1 April 1999). Of course, the actions of the Skate government caused as much concern in Washington as they might have done in Rome, but there was little evidence that the Bank's previous efforts had so far done anything to make national politicians more accountable to key interest groups in the 'social sector'.

None of these considerations should be allowed to detract from the observation that the strategy of 'environmental adjustment' did serve the specific purpose for which it was adopted during the period of the Chan government. However, subsequent events underlined the well-known fact that structural adjustment loan conditions can only be short-term policy measures, and cannot be expected to function as substitutes for the development of new political forces and relationships within the client country. 'Accountability should be rooted in local processes and institutions, and international governance should not be substituted for local governance' (World Bank 1999b: 220).

No-one should overestimate the Bank's capacity to influence the development of 'local governance' by any of the policy instruments which are available to a multilateral lending institution. Instead of just asking what the Bank could and should have done, or what it might now be doing, to achieve a specific set of environmental outcomes in PNG, one should also ask how the national property regime and the national political system condition the ability of any stakeholder to achieve rational outcomes by rational means.

The recent history of 'land reform' provides a perfect illustration of the perversity which abounds in the national policy process, and this example bears directly on the business of forest policy reform, because it underlines the fundamental dilemma faced by the green technocrats in the donor community, if not by the green advocates in the NGO community. How can their own

² National environmental NGOs were amongst the first to complain that the money had been diverted from its intended purpose. The program received no mention in the Bank's version of the SRP Policy Matrix or in the Morauta government's first budget.

arguments and interventions make a positive impact on the development of a 'culture of compensation' through which PNG's traditional, indigenous, landowning communities, internally divided as they are, make it increasingly difficult for all 'outsiders' – be they loggers, conservationists, bureaucrats or bankers – to 'help' them manage their own resources?

The State's new clothes

The green advocates in the NGO community say that this question is partly answered by the Bank's acknowledgment that firm action must now be taken to stop the log export industry in its tracks, before it causes any further damage to the moral fabric of Melanesian society. The Bank's virtual disengagement from the process of structural adjustment during the last 15 months of the Skate government created the 'space' within which it was able to strike a new deal with the NGO community, recognising the need to impose a moratorium on new timber concessions as a condition of any new round of adjustment lending, even before the government's attitude to this measure had been ascertained. There is no doubting the significance of this move, but what exactly does it signify? The NGOs have hailed it as a major victory in their own battle against the logging companies. Should we therefore infer that the Bank has come to share their policy prescriptions, or does it have a somewhat different agenda?

It is hard to answer this question because there seems to be a certain reticence on both sides of the new deal, or a tacit agreement to beat around the critical bush which kept them apart for so many years. The point at issue is whether a large-scale log export industry in PNG can ever count as a form of 'sustainable forest management'.

The Bank's agreement to the concept of a moratorium might have owed something to the fear of bad publicity arising from the process of complaint to its own Inspection Panel, especially at a time when its own Forest Policy was being subjected to a long and deep process of scrutiny. On the other hand, Bank staff were well prepared to defend themselves against the central accusation that their own policies and practices had done more harm than good to the forests of PNG. The straw which broke this particular camel's back might well have been the President's increasing emphasis on the Bank's role in supporting the instruments of 'good governance' in client countries (see Wolfensohn 1999). This enabled his staff to develop or accept the idea that the log export industry in PNG is not just an instance of 'bad governance' in its own right, but that it has exerted a corrupting influence on the whole of the body politic, and action taken to curb its further growth could therefore be justified as one of several medicinal measures applied to a very sick patient. When they observed that '[s]ocial fragmentation and demands by vested interests have poisoned the political system' (World Bank 1999b: xii), the log export industry was evidently seen as the most 'vested' interest of all.

The virtue of this argument lay not just in its appeal to the NGO community, but in the fact that it obviated the need to produce an economic justification for

the moratorium, which would have been hard to reconcile with the economic arguments which the Bank had formerly deployed against a log export ban. It also had the advantage of reducing the need to establish 'borrower ownership' on the part of a government which had accepted the depth of its own 'crisis of governance', because the moratorium would function as a useful test of its determination to resolve this crisis. Perhaps the more important point is that the Bank, along with other members of the donor community, has come to see that this crisis cannot be resolved by policy measures which merely help the reformist elements of the bureaucracy to resist the demands of their political masters. Instead, it has thrown its weight behind a wholesale program of public sector reform driven from the top, by a small number of reformist politicians who currently occupy the central corridors of power. Our old friend 'Political Will' has thus returned to centre stage, and it is his determination which is being tested by the moratorium.

But one might still ask what else the Bank is hoping to achieve by the imposition of this moratorium, if it is part of a policy package designed to address the more basic crisis of governance which has distorted the results of its previous engagement with the forest policy process. Some Bank staff would probably agree that 'bad governance' in rural areas is as much a cause as an effect of the various deals done between loggers and landowners, with or without the connivance of politicians and public servants. The point at issue here is whether, and how soon, an improvement in the delivery of public goods and services to rural communities will reduce the material incentive for local landowners to trade their forest resources for short-term economic benefits. For that is surely the way to create the conditions under which they will no longer need to be 'protected' from the loggers by the fetters of legal and bureaucratic regulation which the Bank has already helped to impose on the logging industry, and which it now proposes to tighten even further with the imposition of a moratorium on new concessions.

Environmental NGOs have shown a good deal of ambivalence on this point, ever since the days of the Barnett Inquiry, because their support for the cause of 'indigenous forest peoples' has been mixed with the knowledge that PNG villagers cannot always, or even often, be trusted to act in a manner consistent with the global resonance of this label. When one local community does put up a fight against the logging industry, it is tempting to treat this as evidence of a widespread rural preference for conservation which, if genuine, would hardly need the heavy hands of the State and the Bank to guide its behavioural expression. But if the moratorium is justified as a defence of 'rural innocence' against 'political corruption', then the cause of 'good governance' might best be served by strengthening the country's legal system and giving village plaintiffs better access to the courts. In that case, the moratorium would no longer be required once landowners could rely on the threat of legal action to keep their resources intact.

But perhaps it is not really needed for this purpose, even now. Experience since 1995 has shown that it is almost impossible for the National Forest Board

to allocate a new concession or extension without breaching the provisions of the *Forestry Act*, and the constant threat of legal action supported by the NGO community has been quite effective in bringing the process of allocation to a virtual standstill, once forestry officials have run out of red tape. Where illegal logging persists, despite the Board's lack of action or even with its connivance, a moratorium on new concessions will not add anything to the rule of law, unless it be to save much of the time and money which is currently consumed in the process of legal disputation, and thus leave the courts free to attend to other matters. If anything, it might be more important for what it says about the breakdown of the Bank's relationship with a Board whose 'independence' it has previously fought so hard to defend, but which it now finds to be somewhat less congenial than the Forests Minister who is no longer interfering with it.

The fundamental ambiguity in the use of the moratorium as an instrument of policy reform resides in the question of how long it is meant to last. If the Bank is buying time, how much time is being bought? If we add together the 'moratorium conditions' which the Bank proposes to attach to the SRP loan and the FCP loan, it would seem that the Bank expects the Forest Authority to refrain from negotiating new Forest Management Agreements with local landowners, and to refrain from issuing new Timber Permits to logging companies, or extending those permits which have already been granted, either in space or time, until some agency has conducted and published a review of all large-scale logging operations which are already underway, all timber concessions which have already been granted, and all proposals to extend existing concessions or establish new ones, in order to verify the adherence of all parties to all relevant laws, regulations and agreements.

This is not just a tall order, it is also a mixed bag. It is one thing to check the actions of the loggers in the forest; it is quite another thing to check the decisions of the National Forest Board in the boardroom. The odd thing is that the first of these activities, which falls within the remit of the FCP, is the one mandated by the moratorium condition attached to the SRP loan, whereas the second of these activities, which does not fall within this remit, is the one mandated by the moratorium condition attached to the FCP itself. No wonder that government officials, including the remnants of the National Forest Service, have been raising their eyebrows and scratching their heads.

Leaving aside the question of who might be engaged to interrogate the members of the National Forest Board, even while its 'independence' is preserved, we must still wonder whether the Bank seriously expects the Sustainable Forest Management component of the FCP to justify the removal of the moratorium within the six years of its implementation. If there is a crisis of governance within the Forest Authority, will this type of intervention sort it out?

The Managing Director of the Forest Authority could be forgiven for believing that the Bank's hidden agenda includes a prescription for his own head to roll off the political chopping block, but if the whole Board has been captured by the log export industry, then a further round of musical chairs might not

release the hostage. The number of sympathetic policy brokers left in the upper echelons of the NFS was evidently too small to warrant an effort to establish their collective 'ownership' of the moratorium before it was inserted in the Bank's Policy Matrix. And despite AusAID's efforts to strengthen its 'human resources', the institutional and absorptive capacity of this body has, if anything, been further diminished by successive budget cuts, retrenchments and resignations. So the application of another heavy dose of technical assistance to the Forest Authority's compliance monitoring operations might still not have the weight required to make the loggers raise their game, sort out the sheep from the goats, and create the foundations for a more transparent, efficient and 'sustainable' large-scale industry.

That is one reason why the Bank initially wanted to outsource the whole exercise, and it might also be the way that Treasury officials see the matter, given their apparent reluctance to comply with the Bank's instruction to raise the Forest Authority's budget. Those members of the national NGO community who have lobbied for a log export ban, and finally settled for a moratorium on new concessions, certainly do not believe that the Forest Authority will ever force the industry to raise its game. They believe that the goats outnumber the sheep to such a degree that any serious exercise in compliance monitoring should have the effect of regulating the industry out of existence, and that is one of the main reasons why they were prepared to settle for the moratorium.

So what if it turns out that the Board will not mend its ways of dealing with the log export industry, and the industry proves or claims that it is unable to raise its game to the satisfaction of the Bank without going out of business? Neither of these outcomes would cause any surprise to the NGO community, which does seem to regard the moratorium as the start of an exercise in the wholesale elimination of 'bad capital'. But are they also part of the Bank's hidden agenda? The Bank can hardly be expected to say that it is trying to regulate an industry out of existence, even if the prescriptions of the World Trade Organisation are subordinated to the values of 'good governance'. But the loggers themselves will not be so reticent in their public appraisal of the Bank's intentions. The key question is how the industry's own arguments will wash with a government whose 'ownership' of the moratorium may still be questionable.

If proponents of the moratorium are hoping to put a stop to all the non-transparent 'backdoor dealing' between loggers, landowners, politicians and public servants which surrounds the mere possibility of new concessions being granted, or new resources being made available by other means, then past experience suggests that they will soon be disappointed. They might also remember what happened when the government imposed its own 'moratorium' back in 1990, and two Forests Ministers then spent two years concocting grounds for granting exemptions to it (see Filer 1991). The ambiguities already present in the Bank's phrasing of the relevant loan conditions might even serve to encourage a repeat performance, with the National Forest Board now playing the part formerly played by the two ministers. And in the rather unlikely event that the moratorium does serve to reduce the volume of legal disputation over the

Board's decisions, the wider process of 'review' envisaged by the Bank will surely provide a much greater volume of work for the legal fraternity.

None of these shenanigans will necessarily reduce the government's determination to abide by its agreements with the Bank. However, the Forest Industries Association will also make two economic arguments which this government, or its successor, may find harder to resist. First, if the moratorium does have the effect of shrinking the size of the log export industry, this will not only have a negative impact on the government's tax revenues, but will also mean a reduction in the average incomes of rural villagers, especially in those less developed areas where many logging operations are currently located. The Bank's pursuit of 'good forest policy' will thus seem to entail the sacrifice of its overt commitment to 'social equity' and 'rural poverty alleviation'. Bank staff might argue that the FCP will help to compensate for the reduction in timber royalties and logging wages by realising other economic values which are currently locked up in the forest. But the short-term, and even medium-term, prospects for small-scale and medium-scale forestry operations, or for the marketing of non-timber products and services, do not look to be sufficient for this purpose. Nor does it seem likely that dispensations from the Conservation Trust Fund will make up the difference, unless there is a very substantial increase in the donor community's willingness to pay for these alternatives, or an equally substantial increase in the country's capacity to tap the global market for carbon credits.

The second, and perhaps more powerful, argument is that which has already persuaded the Forest Authority's Managing Director to doubt the value of the FCP. How does it make economic sense for the government to borrow US\$18 million from the World Bank in order to scale down an industry which does make a significant contribution to the government's tax revenues, and thus reduce its own capacity to repay the loan? Those members of the NGO community who lobbied for the moratorium have also posed this question (Cortesi and Barclay 1998), even while they were complaining that the Conservation Trust Fund would be under-funded. The other components of the FCP do not have much to offer the Internal Revenue Commission, and it is hard to see how the surveillance of logging operations can be justified by the same criteria of cost recovery as the log export surveillance contract. Even if the Bank's economists have ways to justify this forestry sector loan in terms of the projected efficiencies of a revitalised log export industry, they might not wish to let these arguments loose on their latest partnership with 'civil society'.

What would a wayward government stand to lose if its failure to comply with the Bank's forest policy conditions caused the Bank to cancel the FCP? The answer seems to be that it would not lose very much at all. Even if other donors were persuaded to link their own grant aid to the forestry and conservation sector to the continuation of this project, the fact remains that conservation has now become the primary, if not the sole, aim of nearly all donor interventions in the forestry sector. No amount of talk about 'sustainable development' will make these interventions produce more export earnings, more government revenues, or

more pocket money for national and local politicians than has so far been derived from the large-scale and 'unsustainable' exploitation of the country's natural forests. Whatever its other merits, and despite its longer time-frame, the FCP would therefore seem to be a rather weak instrument for sustaining long-term policy reforms unless its implementation is tied to a further round of structural adjustment lending, after the second tranche of the SRP loan has been disbursed.

The most predictable feature of PNG politics is the probability that a new government will present a new policy face to the Bank on two occasions in each period of five years between national elections, and there is no obvious reason to think that the present government's moves to promote the 'integrity of political parties' will make any impact on this basic feature of the political system. So, even if the present government keeps faith with the Bank's forest policy conditions, and even if it survives until the next election, it is likely that a new government formed in July 2002 will be looking to reverse some of the policy decisions made by its predecessor, including those made in the domain of forest policy. It remains to be seen whether that government will inherit a new set of adjustment loan conditions, but past experience has shown that it could still find room to challenge them, especially if it finds that the national coffers have suddenly been swelled by revenues from the so-called 'Gas-to-Queensland' project. Necessity is the mother of good intentions, and windfall gains from mineral resources are the proven method of escape. The combination of PNG's political system and its national economy is liable to trap the Bank in a roller coaster ride which necessitates the continual reinvention of its own wheels of policy reform.

This does not mean that the Bank is simply treading a vicious circle. Mistakes have been made, lessons have been learnt, and new directions have been sought. In the latest incarnation of its forest policy conditions, one can see that the Bank has begun to treat the forestry sector and the forest industry as a 'special case', to which the normal rules of export-led growth do not apply, because the economic benefits of raw log exports have unacceptable political costs. At the same time, it has reverted to dealing with environmental NGOs as a separate compartment of 'civil society', whose members are only expected to support the Bank's stand on forest policy matters, while turning a tactical blind eye to the more contentious aspects of structural adjustment.

In these respects, it might appear that the relevant loan conditions are somewhat more 'detached' from the main body of economic and institutional reform than they were during the period of the Chan government. On the other hand, the Bank has once again made the government's compliance with forest policy conditions the litmus test of its sincerity in the pursuit of 'good governance', and since governance has now taken pride of place amongst the goals of the latest reform program, these conditions would now seem even more critical to its overall success. At the same time, the greater severity of these conditions means that this could turn out to be a much tougher test than the one which was posed in 1995 – not only for the government, but also for the Bank. The economic and fiscal cost of new restrictions on the large-scale logging

industry will not only test the government's 'ownership' of the reform program, but will also test the Bank's ability to disown its previous support for a 'sustainable' large-scale log export industry as a normal and essential ingredient of the national economy. This will not be an easy line to hold.

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