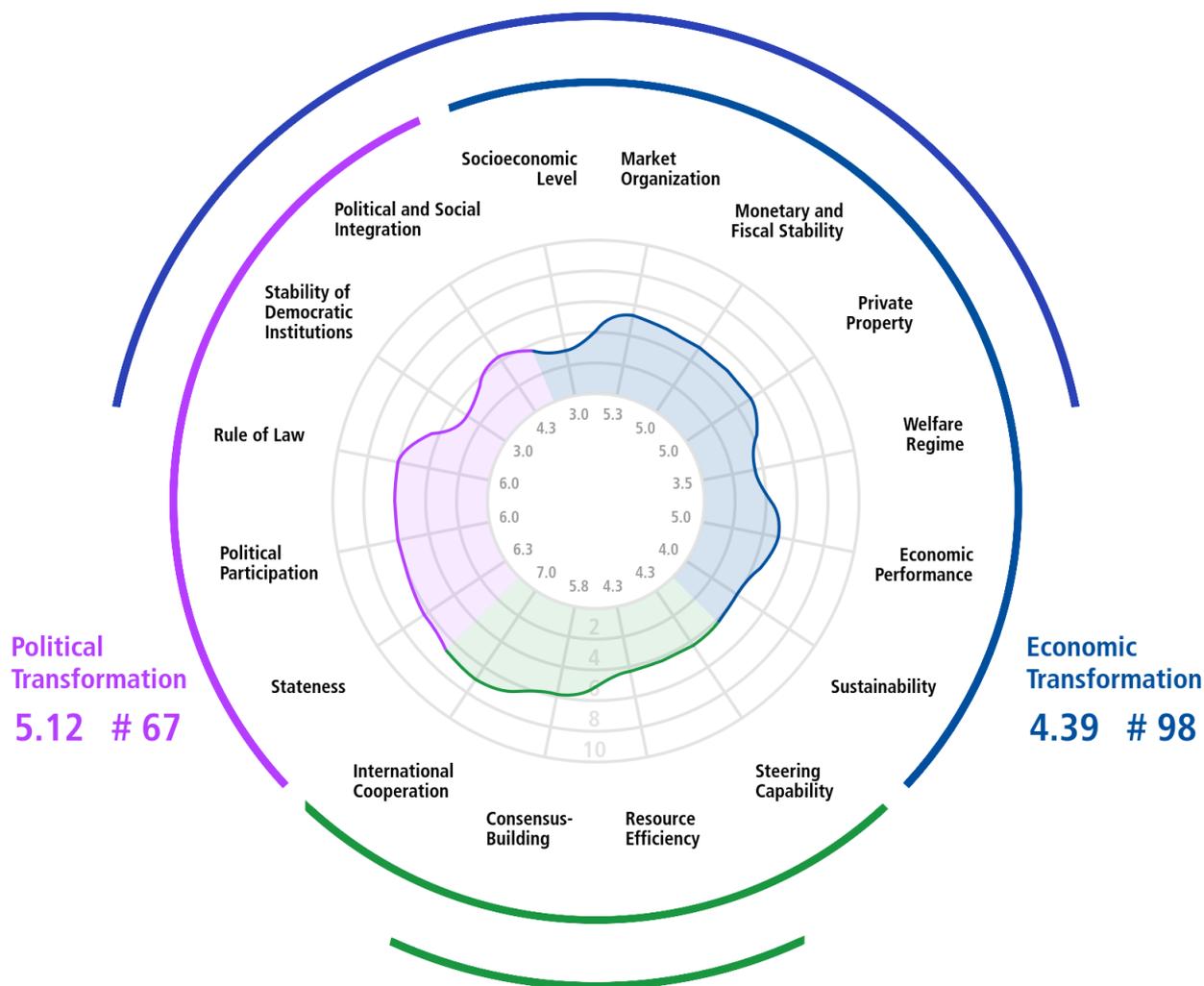


Papua New Guinea

Status Index

4.75 # 81

on 1-10 scale out of 137



Governance Index

4.97 # 57

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	10.1	HDI	0.558	GDP p.c., PPP \$	4447
Pop. growth ¹	% p.a.	1.9	HDI rank of 189	156	Gini Index	41.9
Life expectancy	years	65.4	UN Education Index	0.446	Poverty ³	% 67.7
Urban population	%	13.6	Gender inequality ²	0.725	Aid per capita \$	118.8

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

During the review period, James Marape's government, in power since 2019, initiated a string of reforms in the social and governance domains. These encompassed enacting laws pertaining to freedom of information, safeguards for whistleblowers, and finally bringing to fruition the much-awaited establishment of an anti-corruption commission (ICAC). Additionally, the government implemented new public procurement provisions, enhanced transparency requirements for debt and debt management, and pursued the implementation of an improved financial management system for the public sector. By the end of 2022, most of these initiatives had made progress, although some were only partially completed. Notably, the approval and submission of the Rights to Information Bill in parliament is still pending.

After a poorly managed and violent national election in 2017, characterized by widespread money politics and abuse of process, the 2022 election witnessed further deterioration. Approximately 30% to 50% of prospective voters reported being unable to vote due to a lack of proper updates to the electoral roll. Additionally, extensive electoral abuse was reported, and incidents of widespread violence and voter intimidation were observed, particularly in certain provinces, but also more broadly than in previous elections.

While the economy was severely constrained during the initial two years of the COVID-19 pandemic – safeguarded somewhat by the high gold prices – it began to recover, along with improved commodity prices, in late 2021 and was expected to have a strong year in 2022. The higher oil and gas prices in 2022 also provided the government with a valuable boost in revenue at a time when other parts of the economy were facing inflated prices, ongoing shortages of foreign exchange, and unreliable public utilities.

The improved access to international concessional finance, including for budget financing, which began during the pandemic, continued into 2022 and 2023. This enabled commercial borrowing to be displaced and resulted in lower average interest rates and debt servicing costs, even as overall debt continued to rise. The government forecasts deficits to continue until 2027, when the budget is predicted to revert to balance. In the meantime, with a small number of new major resource

projects now approved, as well as the restoration of the closed Porgera mine, it is expected that business confidence will be boosted and the economy will pick up markedly in 2024 and beyond. However, the ongoing current account surplus will be replaced as the construction phase of the (Total-led) Papua LNG project commences, along with some other potential projects.

The extractive industries dominate PNG's export earnings and, in most years, provide a substantial portion of government revenue, directly or indirectly. Their contribution to employment is important but more limited, especially for the capital-intensive and largely automated oil and gas sectors. The initial construction phase in these sectors led to an increase in jobs, primarily for both local and overseas workers. The international tourism and hospitality industry, which is significant to economies in the Pacific but less so in PNG, is now reviving after the pandemic. However, tourism in PNG, where it has been relatively small but locally important, faces many continued challenges. The agriculture sector, which continues to provide the bulk of PNG's employment both within and largely outside the formal sector, as well as most of its food supply and significant foreign exchange, has also faced many challenges. They include low prices and returns, high costs from poor transport infrastructure and law and order problems, and in recent years, a spate of newly introduced pests and diseases, including cocoa pod borer. Most recently, the first appearances of coffee berry borer and African swine fever were noted during the COVID-19 pandemic.

History and Characteristics of Transformation

Prior to colonial rule, Papua New Guinea was a country composed of largely autonomous local communities. This trend was not altered much during colonial rule. After independence in 1975, many communities still had little contact with the government. Parts of the country and a small, educated elite campaigned for independence; however, the country was largely ill-prepared. Considerable effort was put into awareness and consultation, with the constitutional planning committee explaining and seeking public feedback on the type of government sought. In the end, a unicameral parliament was chosen, based upon the Westminster system, partly because the country was reasonably familiar with this. A comprehensive new constitution was prepared, with a major focus on equality of opportunity, freedoms of information and expression, sustainability, and respect for customary ways, with most of the laws inherited from Australia and British case law, until PNG drew up its own set of laws and case work.

Papua New Guinea gained independence in 1975 after three years of home rule. In the first decade after independence, the country implemented its parliamentary democracy. Although there had been extensive mining during the colonial era, agricultural production dominated livelihoods and the cash economy. From 1984 on, mineral exports surpassed agriculture as the major earner of exports, though agriculture remained the main contributor to GDP and both formal and informal sector employment.

Economic downturns soon led to increasing law and order problems during the mid-1980s, which reached a new high when, in 1989, an armed insurrection closed down the Bougainville mine, leading to a civil war termed the Bougainville Crisis. In turn, this led to growing social and economic disturbances in Bougainville and across the country. In 2001, the Bougainville conflict formally concluded with a peace agreement. As a result, an autonomous Bougainville government (ABG) was established, and a referendum on the question of independence was held in December 2019.

One major challenge to developing mechanisms to provide greater political stability and adherence to policy platforms has been the nature of governments since independence. All governments, thus far, have been coalition governments, composed of several political parties and independent members, who invariably swap political allegiances based on pragmatic grounds. The Organic Law on the Integrity of Political Parties and Candidates (OLIPPAC) was passed in 2001 as an attempt to restrain “party hopping,” but it was subsequently deemed partially unconstitutional and proved largely ineffective; the other approach to creating loyalty has been the use of a system of rewards and patronage, which has undermined credible government.

The governments of Sir Michael Somare (2002 – 2011), Peter O’Neill (2012 – 2019), and James Marape (since 2019) were characterized by increased dominance of the executive over the legislature. The terms of both Somare and O’Neill concluded with a rebellion by parliamentarians who alleged that the government was controlled by a small elite. The decentralization system was replaced in 1995 by one in which national members of parliament largely control the provincial governments, while members of parliament control the major funding for their constituencies under Special Improvement Programs (DSIP and PSIP), notably through their chairmanship since 2013 of District Development Authorities. The release of funds for the SIPs tends to be used as leverage for loyalty by the government of the day. The public’s frustration with the widespread mismanagement and abuse of the election led to the establishment of a parliamentary committee to review it, hold hearings with the public, observers, and other stakeholders, and propose reforms to ensure better preparation and a more credible election in the future. The public will watch the process with some skepticism but demand a tangible outcome.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Militant landowner groups, tribes, clans and criminal gangs in different parts of the country perpetually challenge the state's monopoly on the use of force. During the 2022 national election, a mob presumably affiliated with a candidate ran amok in the capital city, wielding machetes. Criminal gangs usually operate along some highways and in several coastal and island provinces, but they also operate in some areas and on certain public transport routes in the capital. In addition, piracy has been on the rise both at sea and along some main rivers. Attacks on villages and travelers in the locally lawless Rai Coast District of Madang Province led to many deaths and to countermeasures by the police riot squad. Gang violence broke out in the largely peaceful New Ireland province in late 2022.

Private security firms also challenge the state's monopoly on the use of force as they employ significantly more people than the state's security services. Some firms are owned by powerful local leaders, including politicians, and a few are local subsidiaries of international security firms, such as G4S and the Corps. They, to some extent, complement certain police operations as they are able to provide more resources than the state. Private security firms are supposed to be monitored by the Security Industry Authority, chaired by the police commissioner and representatives of companies and civil society; however, the authority has only been partially operational in recent years.

Papua New Guineans – with the exception of most of the population of the Autonomous Region of Bougainville – accept the nation-state as legitimate with clearly defined boundaries. However, the loyalties of most Papua New Guineans remain with their primary kin groups. They tend to think of themselves first as members of their clans, language groups, provinces, regions and only afterwards as Papua New Guineans.

Question
Score

Monopoly on the
use of force

4

'06 _____ '24 10



_____ 1

State identity

8

'06 _____ '24 10



_____ 1

Access to citizenship is open, with indigenous Papua New Guineans automatically becoming citizens upon birth, and naturalization is available for those who qualify on the basis of long-term residency, prior birth-citizenship, level of investment and associated criteria. People holding dual citizenship, however, are subject to various restrictions, including being barred from public office or even voting in elections.

Although the state is secular, the constitution refers to PNG as a Christian country. More than 90% of the population officially adheres to Christianity. The influence of various churches, for example, is seen during election campaigns, with individual church members supporting specific candidates, some church leaders even standing for political office, and some political leaders providing funding to churches in order to gain their favor in the election. Specific policy issues, such as family law or women’s and LGBTQ+ rights, are rarely addressed by churches. However, lobbying by some churches to repeal the death penalty, and in favor of stronger action to tackle violence against those accused of sorcery have influenced policy, including the abolition of the death penalty in January 2022.

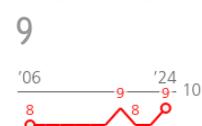
The government’s operational machinery is dilapidated in most rural areas, both infrastructurally and in terms of staff. There are few interprovincial roads and few access roads to large portions of the country, and those that exist are often impassable. As a direct consequence, the provision of many public services, such as education, health care and law and order services, is uneven across the country and highly deficient beyond the vicinity of major towns and provincial capitals. However, churches provide the majority of the health and education services (with co-funding from the government and strong support from international donors) in more rural areas, with Western Province also benefiting from strong support from the privately funded PNG Sustainable Development Program.

Successive measures to decentralize the administration and increased subnational funding have strengthened the state’s presence at the local level, which, however, remains weak overall.

2 | Political Participation

General elections are held every five years as required under the constitution. Serious failings and irregularities are prevalent during voter registration, the process of voting and ballot counting, with strong indications that the 2022 election was the least prepared and was subject to the most systematic manipulation since independence. Money politics has become increasingly prevalent, entailing inducements to voters, demands for rewards by some voters, and rewards (in money or kind) to parties and candidates during the process of seeking to form government. Elections in PNG see high voter turnout, but there is increasing public dismay at the level of abuses, including the large number of eligible voters denied an opportunity to vote in 2022,

No interference of religious dogmas



1

Basic administration



1

Free and fair elections



1

comprising both younger voters who have become eligible to vote and many voters who had been on the electoral roll in 2012 and 2017 but were removed in 2022. As a consequence of the public outcry over the 2022 election, a parliamentary committee was established to examine the conduct of the 2022 election and propose ways to rectify the failings, with public hearings commencing in February 2023.

The 2022 international and domestic electoral observers were consistent in reporting on severe shortcomings in the election preparation and implementation. Several additional constituencies were introduced shortly before polling was due to commence and after ballot papers had already been printed. In addition, legal deadlines for the National Court to render their decisions regarding election petitions were largely absent.

A further critical concern is related to the late preparation of the entire election, with major funding only released in February 2022. There was completely inadequate funding for both the Electoral Commission and support agencies, including for logistics, awareness and law enforcement during the years leading up to the election itself.

Democratically elected national political representatives have considerable power to govern, at the national, provincial and district levels. However, individual power groups can create their own domains or pursue special interest policies. Provincial governors (who are also national members of parliament for the regional seats) largely control provincial bureaucracies and resources, while other members of parliament (holding the open seats) have dominant control over public servants and resources in the districts, purportedly sharing responsibilities with the presidents of the local-level governments. The military in PNG has generally remained neutral, despite some seemingly political appointments of the commander and selective recruiting during the past decade. Likewise, the clergy lacks de facto and de jure power to undermine democratic procedures, although they may have considerable influence.

The PNG constitution guarantees freedom of association and assembly. During the review period, despite limited restrictions during brief COVID-19 lockdowns, restrictions on protest and assembly, which had become increasingly prevalent between 2014 and 2019, appeared to have been relaxed, whether by intent or coincidentally. Although there were protests during this period, for example, related to gender-based violence and related issues, there was less political antipathy that might have led to the major student and other protests of earlier years. There was immense frustration in 2022 over the deficient conduct of the election, which may have contributed to the violence in some electorates. However, the public has largely been willing to allow due process, including the use of the court of disputed returns, to ensure appeals by some candidates against the declarations and by the parliamentary committee on the conduct of the elections.

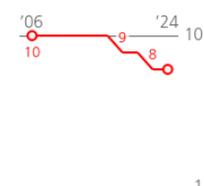
Effective power to govern

3



Association / assembly rights

8



There have been campaigns and some protests against certain proposed major resource developments, including the proposed Freida copper mine. There are other sensitive developments, and protests – primarily in remote rural areas – have sometimes erupted into violence where land and forest resources have been apparently grabbed by developers without landowner consent, sometimes in collusion with “rogue” police units or other officials operating at the behest of logging companies. The police commissioner has repeatedly stated that there are no links between police units and logging operations, but individual officers or units seem to turn a blind eye, presumably being better rewarded by the companies.

Having presented themselves as an anti-corruption government, the more populist Marape government has initially, at least, been less sensitive to criticism and more open to public dialogue and large public gatherings, including mass gatherings for funerals of leaders, even while COVID-19 restrictions were supposedly in force, and during election campaigning. Members of government, the judiciary and senior officials attended the launch of various anti-corruption and governance presentations, and actively responded and committed the government to addressing the issues raised.

The constitution specifies that, “subject to any restrictions that may be imposed on non-citizens, everyone in the country enjoys the fundamental rights and freedom of the individual,” including “freedom of conscience, of expression, of information, and of assembly and association.” Citizens, organizations, and the media can express their opinions freely. However, the new National Media Development Policy published in February 2023 is raising strong concerns in the media and civil society as it appears to be an attempt to limit freedom of media expression in PNG. The policy has drawn comparisons with Fiji’s punitive media act of 2010. The National Cybercrime Act (2016) already provides the government with the powers to randomly control and constrain social media activity. More recently, some statements have been made by the government (and also on social media) against media outlets for releasing negative stories of violent crimes in PNG, denouncing such moves as “unpatriotic.” There is also some concern over aspects of the Digital Government Act 2022, although this is largely about setting minimum standards for the provision of online information to the public and complements the long-planned Rights to Information Bill, hoped to be passed in 2023. In the absence of this legislation, various restrictions have been applied arbitrarily by the government, partly as there remains a reticence, whether intentional or by default (or lethargy), to provide information publicly or routinely, or engage in dialogue with stakeholders.

With TV and some radio media increasingly consolidated under the ownership of state entities, there have been concerns over managerial interference in editorial freedom. The ownership of the two daily newspapers remains in the hands of (overseas-owned) private businesses, one being a multinational media company, the other a logging company with diversified businesses and interests. With other outlets in the hands of the church and international ICT companies, there remains at least some diversity in formal media outlets.

Freedom of expression

8



1

3 | Rule of Law

The separation of powers between the legislature, the executive and the judiciary is cemented in PNG's constitution. However, a domineering executive government over the past two decades, and particularly in the 2010s, and the control by members of parliament of major budget allocations at the district level have weakened the independent functions of parliament, or at least their practical application.

The Supreme Court has repeatedly demonstrated its independent authority since independence. A succession of referrals have been made by the government to the Supreme Court on jurisdictional matters and procedures regarding the 2022 election, the 2022 vote of no confidence, and the timing and validity of the 2020 budget.

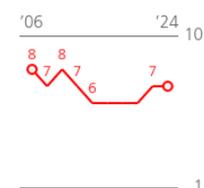
The judiciary is a professional institution with a long-established reputation of independence from the executive, a competent and independently run legal training institute, and a law school at the University of Papua New Guinea. However, there are concerns over falling standards at the latter, as student intake in the faculty has risen sharply but staffing capacity has not increased accordingly. The PNG Law Society is responsible for upholding professional standards but undertakes relatively weak oversight.

There are clearly defined procedures for the appointment of judges, magistrates and other officers of the court, channels of appeal, and court administration. However, the appointment and reappointment process for the chief justice, judges, other constitutional officeholders, and the chief executive of constitutional institutions has clear flaws. This creates opportunities for undue political influence in appointments and, hence, the conduct of justice. For example, the chief justice of the Supreme Court and the public prosecutor and public solicitor are all appointed by the head of state acting upon the advice of the cabinet rather than by an impartial constitutional appointments committee.

The courts are extremely slow in administering justice, with a backlog of cases dating back several years. However, the National Court is in the process of digitizing cases and its system, which was launched in 2022. This is expected to speed up case management and also prevent the loss of court files and other documents, which has been prevalent in the past. For rural areas and even many urban communities, formal justice services are considered largely inaccessible, with lawyers and facilities remote and unaffordable. There is, however, an extensive network of village court magistrates operating across rural and urban areas. Although they are not authorized or equipped to handle criminal or other serious cases, they are responsible for a wide range of cases, using a process based on traditional law and justice. The Justice Department currently undertakes an extensive program of training for the village court magistrates, appointing more female magistrates, and providing a range of support, including referral pathways for cases related to gender-based violence.

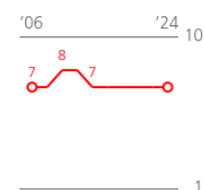
Separation of powers

7



Independent judiciary

7



Corruption in PNG is systemic and systematic in the public sector and has permeated all tiers of government.

In recent years, many cases of high-level corruption have been abandoned on the basis that excessive time has elapsed.

For the past three decades, both public and business perceptions indicate that corruption has become worse. This is backed up by findings from several commissions of inquiry and special inquiries into finance, land and forestry matters, as well as reports by the Ombudsman Commission and the auditor-general. However, very few corruption cases are ultimately prosecuted despite extensive findings from inquiries, partly because findings generated by such inquiries cannot be used directly as evidence in a trial. Current law enforcement mechanisms include the police fraud squad, the Ombudsman Commission and the public prosecutor’s office.

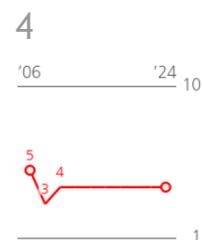
An Anti-Money Laundering and Counter Terrorism Financing Act and a Proceeds of Crime Act were passed in 2015 and an amendment (or associated) legislation was drafted in 2022 for the Unexplained Wealth Bill. The Whistleblower Act was passed in early 2020. In November 2020, the Organic Law on the Independent Commission Against Corruption (ICAC) was passed. The commission was established under an interim chairman in 2021 and 2022, and the selection of the three commissioners was undertaken in 2022 for appointment in early 2023. A financial analysis and supervision unit has also been created in the central bank.

The civil rights of all people living in Papua New Guinea are accorded under sections 32, 35, 36 (freedom from inhuman treatment) and 37 (right to protection under the law) of the constitution, are entrenched and enforceable under section 57, and are codified by law. However, these rights are widely violated by both state and non-state actors. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are in place but are inconsistently effective. There is no evidence of discrimination based on religion, ethnicity, race or political preference, but there is widespread discrimination in practice based on gender and sexual orientation. Fear of sorcery is pervasive. Law enforcement has been involved in unlawful killings or the raping of tribal members and people with disabilities.

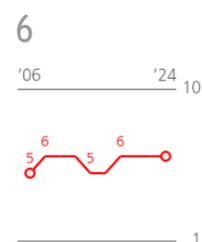
Constitutional guarantees of due process are poorly upheld. Arbitrary detentions are relatively common. Delays in the criminal justice system contribute to lengthy pretrial detentions, leading to up to half of inmates in some prisons being remandees. Sometimes the village courts also go beyond their authority in imposing penalties. Prison conditions are poor, often unhygienic, overcrowded, and understaffed.

Extensive private employment of police officers and large forces of private security guards have resulted in human rights abuses at the sites of mines, urban businesses and particularly logging camps and operations. Police brutality is common. In addition, women, men and children living in rural areas are often threatened and abused. The issue of dispossession of customary landowners of extensive areas of their land and resources under the notorious Special Agricultural and Business Leases (SABLs) has been highlighted by the U.N. Human Rights Council.

Prosecution of office abuse



Civil rights

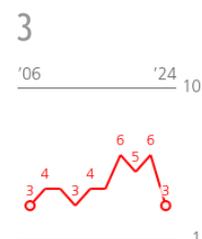


4 | Stability of Democratic Institutions

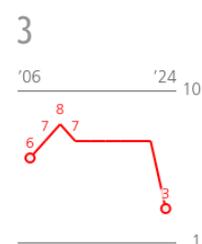
The operations of democratic institutions and other public sector institutions have been severely undermined by a lack of resources and tardy commitment to processes. Claims of cronyism in some staff appointments, extensive block voting, vote buying, manipulation and intimidation in elections, and the subsequent formation of government and ensuring operations of government and parliamentary processes have been widely reported. The parliament is dominated by a powerful executive. The growing dominance of money politics has led to a vicious cycle of abuses and corrupt leaders succeeding in gaining office, resulting in continued poor governance and the absence of needed reform.

There are no relevant actors that openly advocate against a Western-style democracy, although there is always an underlying debate over whether the Westminster system with its current unicameral parliament is the most appropriate, whether there should be a second house and whether customary systems of leadership provide more accountability, at least at the local level. Some advocate for a presidential system of government, and the prime minister himself has promoted the idea of a directly elected prime minister and has asked the Constitutional and Law Reform Commission (CLRC) to explore this.

Performance of democratic institutions



Commitment to democratic institutions

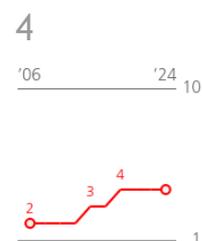


5 | Political and Social Integration

Political parties operate more like political factions at the national level, with small memberships and weak support at the grassroots level. 52 parties contested the 2022 national election, the highest number in any election to date. 23 parties gained seats. Although the majority of the 3,619 candidates that stood for the 118 parliamentary seats were standing as independents, the majority who won (91%) were affiliated with one of the parties, more than in previous elections, when the average was only 80%.

Political parties are difficult to distinguish ideologically. In fact, most parties in PNG are not founded on ideologies or belief systems but more often around regions, personalities, affiliations, specific issues or historical circumstances that galvanize and sustain support over time. Throughout its history as an independent nation, the role of political parties has been limited to two particular functions: sponsorship of candidates and subsequent coalition building. In many cases, candidates, party members, and even ministers and party leaders change parties for pragmatic or opportunist reasons.

Party system



The government, with some reticence, together with the majority of provincial authorities, has consistently recognized NGOs (and particularly faith-based organizations) as providing a critical complementary service delivery system. In higher-level policy documents such as Vision 2050, the PNG Development Strategic Development Plan (2010 – 2030) and the Medium-Term Development Plans (2018 – 2022), there are many references made to the role of CSOs and the private sector in the delivery of education, health, social protection and other services, both on a routine basis and in times of natural disaster. The government has also published a government-church partnership policy and a government-civil society policy.

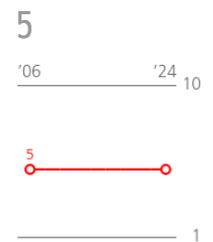
In the case of health and education, NGOs (notably churches) provide nearly half the country's service provision, especially in rural areas. Most of these services are co-funded by the government with some international support, while private sector-funded foundations (funded by oil and ICT firms, or clubs such as Rotary) run a range of support services.

In addition, there are several business-funded organizations promoting the views and interests of the private sector in public policy.

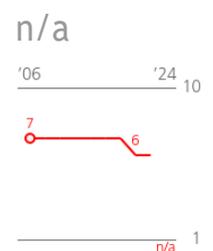
In recent years, there have been several chambers and councils established to promote the interests of women in business, or professional women, as well as entities to represent young people and people with disabilities and other special needs. There are also women's organizations, and national and local NGOs focused on addressing gender-based violence and other social issues. There are policy think tanks and governance organizations that engage with the government and sometimes challenge or seek to hold the latter accountable at national and local levels. Trade unions are legally recognized in both private businesses and the public sector, including for teachers, doctors, nurses and those in public service. Landowner groups associated with clans are also legally organized and recognized. Approximately 97% of land in Papua New Guinea is held communally by clans, and recognition enables the clans to defend their rights as owners of the land against the state and private companies, local and multinational.

No representative surveys on this subject are available. However, anecdotal and circumstantial evidence suggests that there is robust support for electoral democracy among much of the population (urban, coastal areas). Students and civil society activists, in particular, value their democratic rights and opportunities. In the 2022 elections, there was extensive public discontent over the flagrant breaches, the incomplete electoral rolls and the prevention of women casting their vote in many Highlands constituencies. The majority of voters have little trust in the electoral process, especially since the deeply flawed 2017 election and even more so in 2022. This distrust extends to the election officials and their support agencies, including the police and other institutions. The strong public outcry and condemnation by observers as well as candidates regarding the 2022 election, led the parliament to establish a multiparty Special Committee on the Conduct of the 2022 elections and to commit to tackling identified issues, including through major reforms if necessary.

Interest groups



Approval of democracy

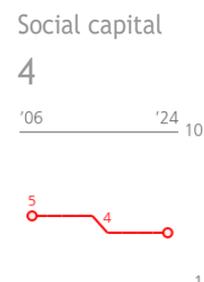


There is a high level of dissatisfaction with government and the low quality of governance and service provision provided by elected governments, although in the villages and settlements many voters have accepted food and other handouts from candidates provided during the election.

This land of more than 750 languages is more renowned for its social and cultural diversity than for its social or political cohesion. At the same time, however, PNG has managed to navigate through its 48 years of independence with surprising coherence, considering the challenges, apart from the extended conflict in Bougainville province (now an autonomous region), which led to a referendum on (and in favor of) independence in 2019. There were considerable efforts before and in the early years of independence to foster a sense of national unity.

Apart from churches and, increasingly, landowner groups, plus a few trade unions, there are relatively few autonomous, self-organized groups, associations and organizations, operating across the country. The cultural and political fragmentation inherent in the clan system tends to resist the development of bridging social capital and complicates the process of developing national identity and solidarity. Sometimes national leaders complain of the prevalence of provincial flags at national events or on national days, although independence day and major national sports events tend to bring out a sense of national cohesion.

Nevertheless, the level of cooperation around major causes has increased, including in campaigning against gender-based and other violence, notably violence related to accusations of sorcery and violence perpetrated by officials or against segments of the community. Women campaigners have developed networks, including male support, both nationally and locally to advance women's participation in the workforce and in political processes.



II. Economic Transformation

6 | Level of Socioeconomic Development

The lack of current reliable demographic or socioeconomic data for PNG makes assessment difficult, with the last household income and expenditure survey conducted in 2009/10 and the most recent census conducted in 2011. A survey has been conducted by the Statistical Office (NSO) in collaboration with the United Nations Population Fund (UNFPA) and the University of Southampton in 2021/22, using satellite imagery and ground-truthing. The initial results suggest that the population far exceeds prior estimates of approximately nine million.



Poverty is structurally ingrained. According to the 2020 Sustainable Development Report, PNG ranks among the worst performers, at 144 out of 163 countries. Using the multidimensional poverty measure, the World Bank estimates that 87.5% of the population lives below the poverty line, based on low incomes, poor education, and low access to electricity and other key utilities.

Despite more rapid urbanization over recent years, Papua New Guinea remains one of the world's most rurally based societies, with the majority of the population still having ready – though diminishing – access to land and natural resources. These resources largely meet subsistence needs, although PNG is also recorded as having surprisingly high levels of malnutrition (notably stunting), especially among those at higher risk, notably young children, mothers, and the elderly. A total of 24.6% of the population is undernourished, indicating almost no progress since 2015 when the value was 25%. The formal sector still only provides about one-sixth of employment, with the majority of the working-age population securing their livelihoods from subsistence production and the rural informal sector: cash crops, processing and marketing, plus goods and services in the urban informal economy. Low economic and formal sector job growth since 2015, particularly during the COVID-19 pandemic, has seen poverty increase in urban settlements, especially with the high cost of living in many cities and higher inflation rates in recent years.

PNG's score on the Human Development Index, which reflects a composite of life expectancy, educational attainment, and other social indicators prepared by the UNDP, is 0.56 (2021), indicating a slight but steady improvement from 0.54 in 2015. The life expectancy at birth is recorded by UNDP as having increased to 65.4 years in 2021, although health services remain very poor. Expected years of schooling have increased to 10.4 years. Under the Gender Inequality Index, PNG was ranked 169th out of 191, with a relatively high maternal mortality rate, a low proportion of women in the population with any secondary education (10.8%) and being one of only three countries at the time (2021) with no women in parliament. There have been growing geographical disparities in wealth over many years in favor of urban centers, partly fueled by private investment and higher public expenditure in these areas, as well as the challenges of accessing more remote rural areas.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	24751.1	23848.4	26311.7	30633.4
GDP growth	%	4.5	-3.2	0.1	4.6
Inflation (CPI)	%	3.9	4.9	4.5	-
Unemployment	%	2.4	2.7	2.8	2.8
Foreign direct investment	% of GDP	1.4	0.5	0.0	1.1
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	3559.1	3419.2	4498.9	-
Public debt	% of GDP	40.2	48.7	52.1	48.8
External debt	\$ M	18744.7	18017.5	16983.3	-
Total debt service	\$ M	2363.0	1305.8	4048.0	-
Net lending/borrowing	% of GDP	-5.0	-8.9	-	-
Tax revenue	% of GDP	13.0	11.9	-	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	1.4	1.7	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.4	0.4	0.3	0.3

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Most large businesses are foreign-owned or majority-owned. In most industries (apart from transport, retail, and security), there is little real competition, partly owing to continued state monopolies over certain utilities and selected services, the still relatively limited market (nationally or regionally) and purchasing power, and a widely dispersed domestic market. These factors are exacerbated by licensing restrictions (e.g., export of timber) and established market controls.

Market organization

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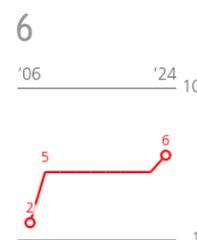
Apart from palm oil, tea and, to a lesser extent, rubber, most agricultural production and domestic marketing are conducted by smallholders and informal sector traders, who use customary land for production. The lack of formal land titles and transferability handicaps the entry of informal sector participants into the formal market. Limited state land restricts entry (or return) into agricultural production for the formal sector. Some substantial business operations have remained informal, evading taxation. However, increased oversight and cooperation between regulatory offices seek to address this issue. Additionally, in 2020, concessional taxation arrangements were introduced for informal businesses seeking transition into the formal sector.

There are major programs to upgrade electricity and other infrastructure and utilities across PNG, funded in most cases with development partners. However, the impression is that electricity services and reliability have deteriorated even further over the past few years, despite generation capacity increasing. Tax payment rates appear to have increased alongside extra vigilance by revenue collection agencies, partly as a result of a continuing large budget deficit. The shortage of foreign exchange and its controlled yet rather inequitable distribution to businesses undermines business activity (and the workings of a market-driven exchange rate). Credit remains accessible for larger businesses with long client engagement but is largely unavailable to smaller and agricultural businesses, particularly those utilizing customary land, which comprises nearly 95% of PNG's land area.

The Independent Consumer and Competition Commission (ICCC), established in 2002, oversees markets and enforces competition, including regulated industries, notably utilities and services provided by state-owned entities, and markets subject to "price control." In 2018, following a review, an amendment to the act required firms proposing to make acquisitions or mergers to seek review and secure prior approval from the ICCC to ensure that competition would not be unduly diminished. Notable proposals for acquisitions in recent years were in banking and the oil and gas sector. For example, in December 2021, the Australian oil company Santos acquired the PNG-based oil and gas company Oil Search. The ICCC reviews the prices of selected goods and services, primarily in cases where there is some monopoly, oligopolistic market distortion or where there are other public interest. During 2022, the ICCC's reviews were related to water and sewage charges (deferred from 2020 and 2021), and the sugar pricing arrangement. The financial sector is heavily distorted, with a single bank, the Bank of South Pacific (BSP), controlling some 80% of the market. The main regulator for the financial sector is the central bank. Most of the oversight role for telecommunications was transferred from the ICCC to the National Information and Communications Authority (NICTA).

The ICCC also administers consumer protection provisions. After wide consultation, the government approved a national competition policy in 2020, which is scheduled to be implemented in 2021. Regulatory reforms intended to enhance the authority of the ICCC were planned for 2021 but have not yet been implemented.

Competition policy



With a relatively small domestic market and high internal transport and manufacturing costs, most goods for export are shipped out as raw materials or slightly processed products. PNG is highly dependent on manufactured imports for both industrial needs and consumer demand, as well as a range of technical services, including processed and fresh produce. The National Trade Act 2023 provided the framework for the development of a holistic and integrated trade policy and the establishment of the National Trade Office (NTO) as the lead agency, which has clearly strengthened the trade environment.

PNG has had a substantial current account and trade surplus since 2014 when construction of the PNG liquefied natural gas (LNG) facility concluded and LNG exports commenced. With the COVID-19 outbreak in 2020 and reduced commodity prices (except for gold), as well as disruptions to trade and the halting of international tourism, the value of goods exported from PNG fell by 13% in 2020 (16% for minerals, relatively static for agriculture). In 2021, as economies across much of the world picked up in the second half, PNG saw a recovery of exports by 13% (10% for minerals and 33% for agriculture). In 2022, Russia's invasion of Ukraine boosted energy prices, resulting in a further jump in estimated export value by 25% (with a 29% increase in mineral values, largely from gas, and a 6% growth in agriculture export value).

For imports, which doubled in value from 2016 to 2019, there was a 17% decrease from 2019 to 2020. However, since then, there has been a slower recovery: 4% in 2021. The recovery is projected to be more substantial in 2022, estimated at 23%.

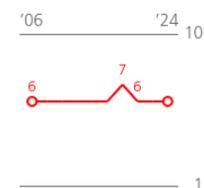
PNG's main trading partners are Australia, Japan and China, followed by Singapore and Taiwan. Exclusive trade agreements are planned and being designed with some countries, including China. At the same time, PNG remains a member of the WTO and some regional trade and development partnerships, including those with Australia and the Pacific Islands Countries Trade Agreement.

The IMF's 2022 Article IV Consultation Report, released on July 14, 2022, specified that "[PNG] Banks remain profitable and well capitalized, with ample liquidity, but nonperforming loans (NPLs) have risen."

Although the Treasurer, the IMF, and various reports recommend moving toward a market-driven exchange rate system, entailing kina (PGK) convertibility, the Bank of Papua New Guinea remains reluctant to shift from its current system of a de facto managed exchange rate. Businesses complain that a shortage of foreign exchange remains one of the major constraints to doing business in PNG, preventing timely orders and payments for imported goods and services, as well as the remittance of profits. Foreign exchange reserves were reported to have accumulated during 2022, partly due to high international gas prices.

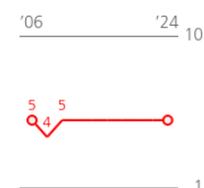
Liberalization of foreign trade

6



Banking system

5



As a country with a significant current account surplus, it is surprising that Papua New Guinea (PNG) has limited foreign exchange reserves. However, major resource companies, including state-owned enterprises (SOEs) with stakes in major projects, specifically liquefied natural gas (LNG), are permitted to keep offshore accounts under project agreements. These companies tend to repatriate funds to PNG solely for their in-country operations, while retaining dividends overseas and conducting other offshore transactions. Conversely, other exporting companies, like those in the agriculture sector, are not formally granted these opportunities. They are required to remit their export earnings back to PNG and request foreign exchange when necessary.

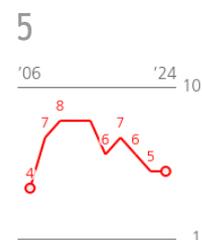
The financial sector is heavily concentrated, with four commercial banks – two effectively PNG-based and two located and owned overseas. However, one of the latter has sold its retail banking and now focuses solely on large commercial clients. The other bank has been attempting to sell its PNG (and Pacific) operations but was prevented from doing so in PNG in 2021 by the competition watchdog, ICCC. Despite this, one bank (BSP) dominates the market, controlling around 80% of the retail sector. The market itself is heavily underdeveloped. Various other financial institutions engage in hire-purchase businesses, microfinance, savings, and some credit services. Among these institutions are one savings and loans society, one hire-purchase company, and the state development bank, all of which are pursuing commercial banking licenses. The licenses for the first two were granted in early 2023. Their ability to transition and fulfill their new role remains to be seen. Nevertheless, it is unlikely that they will provide the significant boost desired for financial services or increase competition throughout the country.

8 | Monetary and fiscal stability

Since 2014, the exchange rate regime has been classified as a crawling peg (against the U.S. dollar), and this has continued into 2023. There has been a slow trend of depreciation in the nominal kina exchange rate since 2012, which, in the face of a positive inflation differential with its trading partners, has kept PNG's real exchange rate constant. Since 2015, the Bank of Papua New Guinea has addressed the forex shortage by rationing the market's access to foreign exchange. This has been accomplished through guidance provided to the commercial banks on allowable transactions, with the goal of protecting foreign exchange reserves rather than allowing the exchange rate to depreciate.

The foreign exchange shortage has worsened the low levels of liquidity in the banking system. The banking system faces an ongoing challenge in the inability of firms to repatriate profits or pay overseas invoices or loans, which limits the effectiveness of the interest rate channel of monetary policy. As of March 2023, the Bank of Papua New Guinea (BPNG) had accumulated reserves amounting to \$4.1 billion, thanks to

Monetary stability



foreign exchange rationing. There is a possibility of some adjustments in the near future, as the IMF lending program approved in March 2023 requires the BPNG to address this forex issue.

Short-dated central bank bonds have been used to absorb the excess liquidity in the banking system.

Domestic credit growth was -7.9% in 2018, reflecting lower economic activity, in part due to disruptions from a large earthquake in the highlands. It recovered to a more normal 5.2% in 2019 as economic activity improved, and then fell to 2.3% in 2020 as a result of the global pandemic. It increased by 10.3% in 2021 as economic activity recovered but fell again to 0.2% in 2022 before recovering to 17.7% in 2023. The inflation rate, which usually trends at around 6%, was 5.1% in 2020, reflecting low imported inflation due to subdued inflation among PNG’s trading partners, slow kina depreciation, and stable prices for seasonal produce. In 2021, inflation rose to 5.7% due to higher prices of imported goods and domestic supply chain disruptions, increasing further in 2022 to 6.3% driven by high import-related inflation.

The budget deficit increased from a low of 2.5% in 2017 to 8.9% in 2020 as a result of the COVID-19 pandemic, before falling back to 6.6% of GDP in 2021. The fall in the deficit in

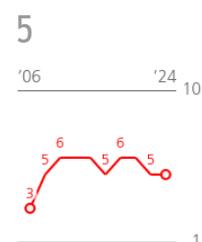
2021 was a result of higher non-tax revenues, specifically foreign grants and dividends from the resource sector, as commodity prices increased significantly late in the year. Final budget outcomes for 2022 have not yet been received; however, a deficit of 5.5% of GDP is forecast.

PNG has in place a Medium-Term Fiscal Strategy (MTFS) for the period from 2018 to 2022, which, together with the Fiscal Responsibility Act of 2006, places a limit on the ratio of government debt-to-GDP. Initially set at 30%, the limit was raised to 40% in a 2020 amendment and further increased to 60% in the 2021 budget. Government debt-to-GDP was 49.2% in 2020 and 51.6% in 2021.

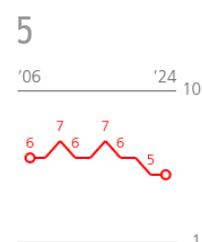
9 | Private Property

Domestic and foreign private entities can establish, own, operate, and sell businesses, subject to certain restrictions on foreign businesses. The Investment Promotion Act prohibits expropriation. Specific industries are also subject to sectoral legislation, such as the Mining, Oil and Gas, Forestry, Fisheries, and Climate Change Acts (e.g., for carbon trading). Amendments in 2020 to the Mining Act and the Oil and Gas Act are perceived as weakening the security of companies conducting exploration, and the strictly non-extension forfeiture of the special mining lease for the Porgera mine in 2020 reduced perceived security for foreign direct investment (FDI) and interest in exploration in PNG. Additionally, the government has emphasized its objective of

Fiscal stability



Property rights

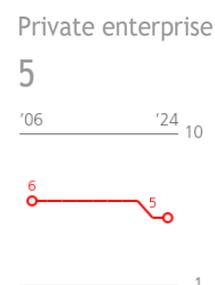


“taking back” control of business and the economy. However, the subsequent agreements on several resource projects in 2022 and into 2023 demonstrated a willingness by some major players to continue to operate under the modified investment conditions.

Most land in PNG is subject to customary ownership, with only urban land and small portions of rural land under state ownership. Land ownership is restricted to citizens, who can gain legitimate access to land for business purposes, including foreign investors, through state leases. However, the process of land administration is known for being slow, inefficient, and problematic. Record-keeping is poor, and there are instances of multiple titles being issued, which can be attributed to mismanagement and corruption. The land allocation system is supposed to operate competitively, subject to zoning conditions, and take account of need and priority. However, it can be slow, burdensome, and lacking in transparency and accountability. Reports indicate extensive abuses, with unadvertised properties allocated exclusively to officials, favored businesses, and individuals. Addressing issues related to land administration through the court system is time-consuming, expensive, and is subject to delays, even in seemingly straightforward cases. Nevertheless, the court system usually delivers a fair outcome given sufficient time and resources. In an effort to improve accessibility to court documentation and decisions, as well as reduce the risks and time wasted due to misplaced or missing court records and documentary evidence, a new online court record system is being rolled out in 2022. Additionally, a national land use planning mechanism, which began in 2019/20 through extensive consultation, aims to reconcile different land use priorities at both national and local levels. This mechanism is still being developed as of 2022.

The state has a legal entitlement, under the Mining Act and the Oil and Gas Act, to acquire up to 22.5% equity in oil and gas projects and 30% in mining projects (on sunk costs). In the past, the state assumed equity in the major mines but subsequently sold most of these shares, notably in the early 2000s, both for revenue and on the principle of privatization. This contributed to a positive decade of private sector confidence and investment, on the back of lower public debt, greater economic and fiscal stability, and positive commodity prices. The 2010s saw a stronger push for equity and even control of resource projects. However, overseas companies continued to dominate the relatively low-tech logging industry. A large percentage of small and micro-enterprises are legally reserved for PNG entrepreneurs.

In the face of lost revenue, foreign exchange, and jobs, as well as a downturn in investor confidence in the resources sector and other sectors, the government altered its approach and facilitated dialogue with investors regarding several major projects. The state retains equity in various sectors, including gas, mining, power, post and telecommunications, aviation, banking, motor vehicle insurance, ports, and other utilities, as well as provincial businesses. Some of these enterprises, such as PNG Power, are financially strapped. Analysis by the ADB shows that these enterprises are uncompetitive and perform poorly, resulting in a high cost for businesses and household users of public goods and services.



Private business, including foreign direct investment, is generally encouraged. However, in recent years, policy commitments, notably the SME policy, have proposed restricting certain business activities to local ownership. Additionally, legislative amendments, including the Mining Act, the Oil and Gas Act and Public Procurement Act, have granted greater powers to the state and other local entities regarding resource projects and apportioned smaller building or supply contracts (notably under \$3 million) to PNG-owned companies.

Most MSMEs in PNG have limited access to financial resources, both loans and equity, even when they possess extensive land or other capital through leases or customary titles. New ideas to facilitate the use of customary land for developments are being discussed. These ideas involve partnering with outside investors or tenants/homeowners while ensuring that the traditional landowners retain title to their land and benefit from the lease agreements.

10 | Welfare Regime

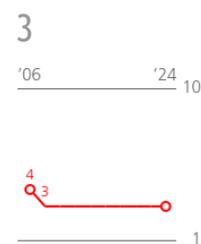
Approximately 80% to 85% of the active workforce work outside the formal sector and depend on their own land, gardens, and marine resources for subsistence or cash sales, or engage in other informal economic activities for their livelihoods. The elderly primarily rely on their own capacity to work their gardens and trade surplus produce. However, if they become incapacitated or experience natural disasters, they depend heavily on family members, clans, and communities.

The state does not provide a nationwide social protection system and only offers basic health services. Workers in the formal sector send an estimated average of 10% of their income each year to their wider families and communities in their home provinces, primarily in rural areas. These funds help cover school project fees, additional expenses, medicine, home maintenance, water storage, and the fulfillment of traditional exchange and other social responsibilities. Many relatives, especially those residing in urban centers, take care of or informally adopt siblings, nephews/nieces, grandchildren, and others from their community, particularly to support their education. However, there are also instances of children becoming household laborers with semi-enslaved status.

Churches are typically the most widely available and strategically located institutions, after households, for offering assistance or identifying community needs, including through modest initiatives aimed at urban “street children” that facilitate educational access. However, their capacity and effectiveness can vary significantly. Extensive removals of urban settlers resemble natural calamities in creating substantial populations in need of food, shelter, and other forms of support.

Formal sector employees, except in small enterprises with fewer than 15 employees, are required by law to contribute to superannuation funds, with employer contributions also mandatory. Access to these funds is only available upon retirement or extended unemployment. However, due to the COVID-19 pandemic, the

Social safety nets



government amended the law to allow more immediate access to these savings in the absence of any state unemployment or other publicly funded relief measures. The New Ireland Provincial government is responsible for providing the country's sole public pension and disability support, although it only offers a nominal contribution toward overall living expenses. The government explored the establishment of a national pension scheme in the early 2010s and again in the 2020s.

The government provides relief measures following natural disasters, but due to limited population, limited public records and financial inclusion, relief cannot be directly transferred to households. Instead, as seen with COVID-19 relief in 2020, it is provided through district grant mechanisms. However, these mechanisms are poorly targeted and administered, leaving them highly prone to political patronage and misuse. Since late 2020, a system of cash crop price support has been instituted to provide wider rural area support. However, unlike in the past when the schemes were run more effectively, these schemes have been ad hoc, costly, poorly designed and administered. As a result, middlemen have gained disproportionate and unjustified benefits.

There are significant disparities in poverty levels between urban and rural areas, as well as among different provinces. A survey conducted in the Sepik Region in 2019 found that nearly 68% of rural households included in the sample were living in extreme poverty. The primary goal of the education system is to achieve universal basic education, which entails providing free schooling at the primary and secondary levels, while tertiary education is subsidized for many students. However, the current structure of the education system results in a dropout rate of up to 75%, with less than 10% of those who completed Grade 1 able to progress to tertiary education. Special measures need to be implemented to increase enrollment rates for girls and low-income individuals, particularly in secondary schooling and tertiary education.

There is a significant gender gap in the formal sector workforce and a low level of participation in the formal labor market by both women and men. The World Bank's 2022 report highlighted that female labor market participation in Papua New Guinea falls below that of comparable peers such as Timor-Leste (62%), Laos (75%), and the Solomon Islands (84%) (World Bank 2022). In the political arena, women's participation has been minimal. The informal economy accommodates many vulnerable people, including women with young children, elderly people, and disabled people, all of whom may be excluded from the formal economy and who need some flexibility about where they work and their working hours. However, the downsides are often poor working conditions.

Equal opportunity

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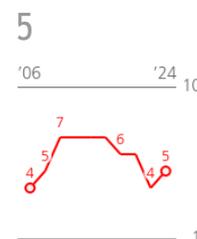
11 | Economic Performance

PNG's mining sector contracted by 3.2% in 2020, with a less severe decline of -0.4% for the non-mining sector, before stabilizing in 2021 at 0.1% growth for the mining sector, while the non-mining sector experienced a stronger recovery with a growth rate of 4.5%. The Treasury forecasted a real growth rate of 4.6% for 2022, or 4.5% for the non-mining sector. According to the World Bank, real GDP per capita (2017 PPP) is estimated to have risen to \$2,673, while GNI per capita reached \$2,460, an increase from 2020's figures of \$2,446 GDP per capita and \$2,470 GNI per capita. The National Statistical Office (NSO) recorded headline inflation rates based on the consumer price index (CPI) at 5.1% for 2020, 5.7% for 2021, and 6.3% for 2022. These figures reflect the impact of high oil prices. However, there is a forecasted drop to 5.3% in 2023, assuming more stability in global markets and the response of central banks to inflationary pressures, particularly through higher interest rates. The year-on-year inflation figures were 4.9% for 2020, 4.5% for 2021, and 6.6% for 2022.

Papua New Guinea (PNG) has run a strong current surplus since 2014, amounting to PGK 18.5 billion (\$5.6 billion) in 2021 and PGK 23.8 billion in 2022, which is equivalent to 20% and 22% of GDP, respectively. This surplus is primarily driven by a strong trade balance, with exports worth PGK 20 billion in 2021 and PGK 26.7 billion in 2022. However, export value experienced a significant drop in 2020 compared to 2019, falling from PGK 27.8 billion to PGK 32.9 billion due to lower oil and gas prices, as well as reduced commodity prices, despite strong gold prices. Imports also declined from PGK 13.6 billion in 2019 to PGK 11.4 billion in 2020.

Exports rebounded, reaching PGK 46.7 billion in 2022, driven by high prices for liquefied natural gas (LNG), oil, and palm oil. Similarly, imports have increased from PGK 11.9 billion to PGK 14.6 billion between 2021 and 2022. PNG's managed exchange rate, coupled with strict rationing of foreign exchange and robust export earnings, has contributed to a rise in foreign exchange reserves from \$1.7 billion in 2016 to \$2.7 billion in 2020 and \$2.95 billion in mid-2022 (World Bank).

Output strength



12 | Sustainability

Papua New Guinea (PNG) has implemented comprehensive laws, policies, and strategies with a significant emphasis on sustainability. PNG has ratified numerous international treaties, including the Paris Climate Accord, and endorsed the Sustainable Development Goals (SDGs) and the Biodiversity Agreement subsequent to the U.N. Biodiversity Conference (COP 15) held in December 2022. A national land use policy is being finalized.

In practice, despite these commitments and priorities, there has been an apparent readiness to circumvent laws and procedures for major resource projects, with very little inspection or enforcement by the respective authorities. Even some initial carbon offset projects have been authorized without due process or oversight. The laws, regulations, and guidelines for climate management remain partly in development. Those relating to the approval and oversight of carbon offsets under national and voluntary market mechanisms are being finalized with assistance from development partners and persistent pressure from PNG civil society, notably the umbrella civil society body, the PNG Environmental Alliance.

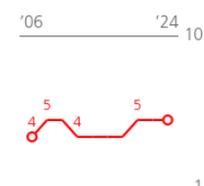
Coal exploration and extraction, deep sea mining, and sand mining have been approved despite the absence of specific policies. The initial licensed deep-sea mining project seems to have encountered financial difficulties. Nonetheless, the mining minister is urging successors to continue, despite widespread opposition from coastal and fishing communities.

Fisheries management of the world's largest tuna resource in the West-Central Pacific has made progress under the regional arrangements of the Forum Fisheries Agency and the Parties to the Nauru Agreement, as well as its vessel monitoring scheme. However, while the benefits to member countries have improved in recent years, PNG's benefit is inadequate. The growth of the Chinese fleet and its demand raises increased concerns over coordination, control, and sustainability, especially with checkbook diplomacy seemingly causing divisions among the resource-controlling nations. However, to date, differences that emerged in 2022 have been overcome.

PNG has experienced significant growth in student enrollment and retention over the last decade, specifically in kindergarten, preparatory, primary, and early secondary schools. This growth has extended to upper secondary and, though delayed, tertiary education. Efforts have been made to improve gender balance, resulting in gender parity in elementary and primary schools, although secondary schools continue to lag behind, despite signs of improvement. However, the quality of education has suffered due to inadequate teacher numbers, college lecturers, and educational facilities. Class sizes have reached alarmingly high levels in many schools, and funding for materials and school meal programs often falls short. According to the U.N. Human

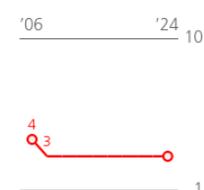
Environmental
policy

5



Education policy /
R&D

3



Development Report for 2021/22, average years of schooling in 2021 were 5.4 for boys and 4.1 for girls. Only 15.5% of males over the age of 25 have received some form of secondary education, compared to 10.8% of females.

In 2020, gross enrollment rates at elementary, primary, and secondary schools were at 131%, 81%, and 31%, respectively, an encouraging trend. Additionally, entry into vocational schools and flexible open and distance education (FODE) has shown improvement. However, the cost of tertiary education poses a significant barrier for individuals who are unable to secure scholarships. It is worth noting that a state-backed loan scheme has been introduced to address this issue.

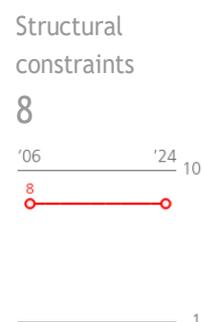
PNG's net enrollment rates remain below the average for lower middle-income countries. The literacy rate, according to the World Bank, was 61.6% in 2010, and PNG's U.N. Education Index score for 2019 was 0.439.

In recent years, there has been a major program of upgrading skills and qualifications across the educational sector, especially at the primary and secondary levels. STEM education has been introduced in selected schools nationwide. Moreover, there have been efforts to enhance distance learning, increase the number of schools equipped with libraries, and replace temporary classrooms with permanent structures. PNG is also promoting research and development education within schools and universities. Despite some exceptions, science and technology have received inadequate funding, resulting in limited participation in science subjects at both school and tertiary levels, although there has been improvement, including the number of female students. Recognizing that most students will never secure formal sector employment and will require appropriate skills to support themselves in the informal economy, including smallholder agriculture, there is increasing recognition of the importance of providing a parallel path of vocational education.

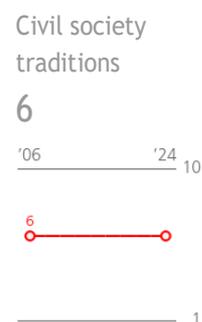
Governance

I. Level of Difficulty

The structural constraints on governance include historical factors such as the slow rollout of formal education services by the government in the late 1950s, which only covered a small percentage of the population for several decades. They also include public administration, and the extremely challenging mountain, island and swampy tropical terrain, as well as a widely dispersed rural population, which makes transport, access and service provision challenging and costly. PNG is prone to high rainfalls and periodic dry seasons, especially in the southeast and the highland regions, as well as natural disasters. Many communities are only accessible by light aircraft via often hazardous remote airstrips. PNG suffers from extensive tropical diseases, typhoid and various enteric diseases. PNG also shows some of the highest global rates of TB, drug-resistant TB and child pneumonia. HIV/AIDS infections are high in some parts of the country. Inaccessibility and poor health services also contribute to very high child and maternal mortality rates.



Civil society in PNG is characterized by a combination of traditional leadership and community consultative systems, which vary considerably around the country, including between patrilineal and matrilineal parts of the country. Churches and church-based organizations have long played an important role in providing services, mainly in health and education, where church-run schools began operating well ahead of state schools and continue to do so widely in urban and rural areas, including higher education (from nursing to teacher training colleges). Churches also provide services in the areas of air and sea transport, although there are less sea transport provisions since the demise of Lutheran shipping services in the 2010s.



Non-church-based civil society activity, including women’s advocacy, human rights, welfare and agriculture support and environmental groups, varies considerably around the country, with some provinces having well-established networks but others having very few. Strong traditional systems, such as the Tumbuan society of East New Britain and New Ireland, hold considerable sway. They are controlled by senior inducted male leaders and provide a level of social discipline but have weakened in recent decades in the face of forces of modernity, organized religion, government and other factors.

Short-term and sometimes long-standing conflicts are a characteristic of Papua New Guinea. These conflicts tend to be based around tribes or sometimes wider regions, as well as social, cultural, ethnic and language differences. Much of the focus for those drafting the constitution in the early 1970s was on crafting a single nation out of diversity, with more than 840 languages and wide ethnic and cultural divisions. Their objective was to respect cultural diversity while creating a sense of common purpose, respect and equity, through a combination of nation-building initiatives and institutions, together with a system of political decentralization. However, this was inadequate to prevent the so-called Bougainville crisis that began in the late 1980s, a conflict that extended through much of the 1990s, causing major social and economic trauma to the province and the country. To meet local and regional aspirations and avoid further conflict, the national government conceded greater autonomy to Bougainville and held a referendum on independence as part of the peace process. The Bougainville referendum was conducted in December 2019 and went firmly in favor of independence.

Conflict intensity

6



II. Governance Performance

14 | Steering Capability

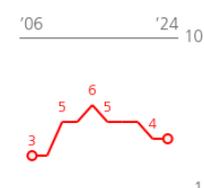
PNG has a well-established long-term and strategic planning capacity. Recent initiatives include Vision 2050, the Strategy for Responsible Sustainable Development and the Medium-Term Development Plan 4 (MTDP 2023 – 2027). There are also sectoral plans for education, health and other sectors, aligned with the MTDP3 (2018 – 2022). Long-term policies and plans have direct linkages with international commitments, such as the Sustainable Development Goals (SDGs). The MTDP and sector plans are designed to cover five-year periods in order to coincide broadly with the term of a parliament. However, their consistency of application may be disrupted, as governments in PNG often fail to survive the entire duration of the parliament. In addition, the interests of the prime minister, ministers and members of parliament often supersede those set out in the plans, skewing public expenditure in favor of status projects or local projects in their constituencies at the expense of longer-term plans. Major natural disasters can also seriously disrupt medium-term planning and implementation, although plans should routinely incorporate disaster preparedness.

Question

Score

Prioritization

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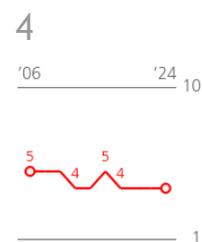


Implementation of national development, fiscal and debt management plans has been severely disrupted in recent years by health and economic factors, including the COVID-19 pandemic, and the disruption and resulting inflationary impacts of Russia’s invasion of Ukraine, although PNG did benefit somewhat from improved revenue from gas exports. The international concessional financing available during the pandemic eased fiscal challenges and allowed some priorities to be sustained, while the fiscal and monetary plans with the IMF and other development partners have encouraged a focus on priorities, including health, education and some governance programs, and discouraged unrestrained commercial public borrowing and increased total debt. Implementation of the relatively ambitious Medium-Term Development Plan has been slow and delayed, including many of the donor-funded development projects. Implementation has also been constrained by the government’s own resourcing problems, and, in some cases, foreign exchange shortfall and outstanding debts or delayed payments to existing contractors.

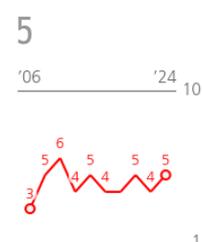
A major constraint in improving project implementation, expenditure coordination and accountability has been the slow rollout – and, for a while, major collapse – of the Integrated Finance Management System (IFMS), which was hacked in 2021, leaving much of the government to operate on manual systems, as well as suffering extensive problems well into 2022. The government’s integrated communications systems have likewise been slowly implemented and have exposed the risks of centralized technology.

The government demonstrates some willingness for policy learning. The Medium-Term Development Plan 3 (MTDP3) ran from 2018 to 2022 and focused on applying and coordinating the government’s development objectives. It is succeeded by MTDP4, launching in early 2023 to cover the following five years. This has been influenced by a review of MTDP3, significant (though not extensive) consultations and a peer review process. The review found limited compliance with the MTDP3 in annual budgets and expenditure. The new MTDP is seeking better adherence, which requires greater awareness among stakeholders and buy-in by respective agencies, at the national and subnational levels. The government will also review the Development Cooperation Policy to better coordinate support from its development partners. The MTDP3 and MTDP4 highlight the government’s recognition that the extractive industries have failed to deliver expected revenues. Lessons learned during the COVID-19 pandemic encouraged increased sector funding for health, notably in the 2022 Budget. In stark contrast, the agriculture sector continues to perform badly, with poor administration, coordination and challenges, although, again, there is recognition of the need for increased resources for this sector.

Implementation



Policy learning

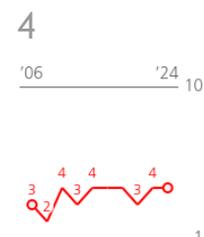


15 | Resource Efficiency

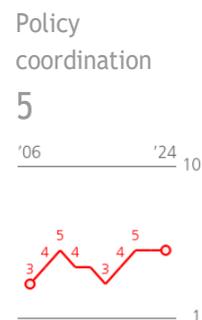
Since 2021, there has been some rationalization of domestic and international borrowing to reduce the average cost, even as new or replacement loans have been taken on. However, utilization of expenditure remains inconsistent, with extensive projects approved for political reasons with inadequate assessments of costs and benefits. Streamlining expenditure has been a major focus of some central agencies, including through the use of the Medium-Term Development Plan mechanism. However, even the successive MTDPs have too readily committed to grand projects or new deemed economic panaceas (like multiple special economic zones), with limited justification or evidence of effectiveness. At the same time, a large slice of revenue has been withheld, not in a sovereign wealth fund, as envisaged, for stabilization, currency sanitization, diversification and investment purposes, but in resource corporations operating effectively parallel budgets. These resource SOEs channel investment back into the same sector from which the revenue was drawn, as well as urban status projects. This is counter to the principle of economic and revenue diversification. It also deprives the government of revenue and necessitates further public borrowing.

Following Russia's invasion of Ukraine in February 2022, oil and gas prices increased and provided companies in the sector, and the state, with a major revenue boost, even while other sectors of the economy and households experienced substantial increased costs, reduced revenue and a drop in living standards. In 2022, the government increased the minimum tax threshold to ease the tax burden on lower-income earners (in the formal sector), and reduced general sales tax and fuel excise duty, at least on an interim basis. With a higher dependence on concessional international financing, displacing some international and domestic commercial borrowing, the total cost of borrowing was restrained even while the total debt level increased. Debt management has been more transparent and systematic, in compliance with the medium-term fiscal and debt management strategies and in cooperation with the IMF. Efforts to improve financial reporting by government institutions faced a setback in October 2021 with the hacking of the government's Integrated Financial Management System (IFMS), which was being slowly rolled out across all government institutions beginning in the early 2010s. The hacking caused a reversion to manual systems for some months. The IFMS is critical to more timely management and oversight of public expenditure and auditing of public accounts, which always lag many years behind, thanks also in part to a lack of resources. The still incomplete rollout of the Integrated Financial Management System (IFMS) has been slow and costly and is dependent upon good telecommunications. The National Procurement Act of 2018 was amended in 2021 but still has extensive weaknesses, meaning the procurement process is still not open and transparent.

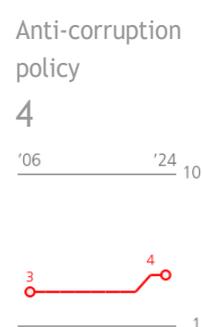
Efficient use of assets



Policy in Papua New Guinea is determined by the National Executive Council, comprising the prime minister and cabinet ministers. The determination of policy and plans is set by a hierarchy of legal and policy frameworks. In reality, however, policy is poorly coordinated, partly as a result of the large number of ministries, a lack of political cohesion, and multiple tiers of government, which operate largely autonomously. The mechanisms for coordination are weak in practice, and the prime minister must constantly seek to sustain a weak coalition of political parties by offering more projects, power and rewards in exchange for loyalty. The country has approximately 1,400 government institutions, mostly underperforming and with little cohesion.

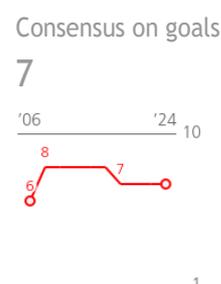


A National Anti-Corruption Agency (NACA) was created in 2004 to better coordinate anti-corruption activities and a National Anti-Corruption Strategy (2010 – 2030) was published in 2007. The establishment of Task Force Sweep in 2011 was designed to provide extra resources to implement the strategy, but it was promptly disbanded after initiating charges for corruption against the prime minister who established it. The Organic Law on the Independent Commission Against Corruption (OLICAC) was passed in 2020, which was followed by the creation of the Independent Commission Against Corruption (ICAC). An interim chairman was appointed, initially with very limited resources. The ICAC launched an anti-corruption strategy in partnership with Transparency International (PNG) in 2022. The three (overseas) commissioners were selected by an independent panel in late 2022 and appointed by the appointments committee in early 2023. The appointments committee, as stipulated in the Organic Law, comprises the prime minister, leader of the opposition, chief justice, chairman of the public services commission and chair of the PNG council of churches. The Anti-Money Laundering and Counter Terrorist Financing Act 2015 and the Criminal Code (Money-Laundering and Terrorist Financing) (Amendment) Act 2015 replaced certain provisions in PNG’s Proceeds of Crime Act 2005. They introduced a robust regulatory framework consistent with international standards to prevent money laundering.



16 | Consensus-Building

The former government (until April 2019), as with its predecessor, became increasingly autocratic over time and less inclined to face criticism or engage with legitimate parliamentary procedures that might remove them from office. Since 2019, these autocratic tendencies have been less apparent. Despite stating its commitment to free speech and divergent views, there are once again concerns that the new government may be seeking to curtail free speech and the media through new media laws administered by the Media Council, which the media and civil society organizations are resisting.



In the aftermath of what most observers considered the worst-conducted national elections since 1975, a parliamentary committee was established to review the election. Whether the poor process was orchestrated or not, there is general agreement that a large percentage of the electorate was denied the opportunity to vote and that the process must be improved in the 2027 election.

The government that gained office in April 2019 has placed greater emphasis on national ownership and control of natural resource development, in order for more local benefits to accrue from them. Economic and political reality has undermined implementation of this aspiration, which has been applied in a very inconsistent manner, with foreign-owned forestry and fisheries, and even extensive foreign-owned micro-SMEs, more or less left untouched. Special economic zones have been introduced to attract foreign investment with attractive tax concessions, despite the strong rhetoric regarding local ownership. On the other hand, major extractive resource projects needing substantial international capital were closed.

The Medium-Term Development Plan gives major priority to economic development and the role of business but assumes the central role of government in managing the economy and delivering utilities and other economic outputs, as though MSMEs are merely delivery mechanisms rather than commercial entities making investment and business decisions on the basis of prospective returns.

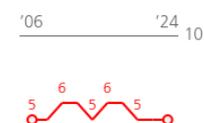
Political actors agree on working toward developing the country's market economy as a strategic, long-term goal and that a national reform agenda to strengthen economic performance and trade policy is needed. However, in reality, political actors focus on control, patronage (some would say cronyism) and, in some cases, on pursuing business opportunities for themselves that distort the economy. There is little effort to address the actual constraints on business and investment, both of which are needed to generate economic activity, jobs and revenue. The underlying differences between the parties are limited and determined primarily by who is in power at the time rather than by ideology, although some political leaders have greater engagement with and awareness of the economic and business realities, and the impacts of their actions, than others.

The problem of transformative reforms in PNG is not the presence or veto power of anti-democratic actors acting strategically out of conviction against the implementation of democratic or market-economic reforms. Rather, it is corruption and self-interest (including monopolistic interests), sometimes in collusion with overseas commercial or strategic interests, that stall democratic reform and competitive market reforms.

Reformers outside government are relatively weak, although perhaps gaining strength through greater awareness and connectivity, while those inside government generally are not sufficiently committed or unified to restrain the powerful domestic actors at the policy level or during implementation. Anti-democratic actors in PNG are

Anti-democratic
actors

5



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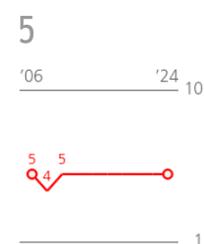
predominantly rent-seekers and opportunists, rather than wishing to replace liberal democracy with an authoritarian system. During the term of the current government, some measures have been passed that could enhance governance, public awareness and participation, and due process, while some are pending. The 2022 election illustrated that the majority of the public was committed to free and fair elections. However, many of the candidates and political parties, as well as some voters, engaged in bribery, physical intimidation and bribe-soliciting for their own ends, sometimes with funding from anti-democratic businesses and possibly other outside interests.

Years of policy uncertainty, little economic or formal sector job growth, inadequate educational opportunities, urban migration, and associated hardship and frustration especially among male youth, widespread political and administrative corruption, and growing income disparities, weakening traditional authority, and undisciplined police behavior have all fueled increased lawlessness across much of PNG. Political standoffs, as in 2011 and November/December 2020, add to the impression that the politicians put their own interests ahead of the public's.

The Bougainville referendum of 2019 went firmly in favor of independence. The Bougainville president has demanded that independence be realized in 2025, but with the autonomous region clearly lacking the institutions needed for nationhood, including any revenue system beyond national government grants, some pragmatism and considerable preparation and cooperation will be required, including presumably, some transitional period.

The Bougainville crisis was triggered in large part by a major resource project, the distribution of benefits, the burden of land loss and environmental costs. Other major resource projects in mining, oil and gas, forestry and agricultural settlement schemes, as well as urban drift and settlements, have all been sources of tension, sometimes resulting in localized conflict that has the potential to escalate, especially in the face of high youth unemployment and social discord. The political leadership is aware of the risks of these cleavages and sometimes seeks to appease them. However, some actions by authorities, including the police, tend to exacerbate tensions. When the leadership tries to prevent cleavage-based conflicts from escalating, it sometimes suppresses freedom of expression, uses money to keep dissenting voices quiet and employs divide-and-rule tactics. In some cases, its security personnel use violent measures, and there are examples of unauthorized deployment of forces to logging projects, with police personnel earning more from these companies than from their normal pay. In 2022, for example, villagers were killed at a logging project by police in East-West Sepik, resulting in retaliatory killings of two policemen.

Cleavage /
conflict
management



The political process is open to civil society engagement, and the delivery of basic services rests substantially on the shoulders of CSOs and, particularly, churches. Churches play a critical role in providing health facilities and schools in rural areas, towns and cities. They also provide the majority of the teacher training colleges, and other tertiary institutions, including universities, primarily – as with the school and the health services – on a cost-sharing partnership with the government. Churches also provide many of the rural air services, emergency medical services for remote communities, and, together with various other NGOs and CSOs, provide welfare, disaster relief and agricultural relief, and prison support and related services, sometimes with funding from government and development partners under the state-church partnership programs.

Women’s groups provide assistance for victims of gender-based violence. The government responded to this issue by setting up a parliamentary committee. The Consultative and Implementation Monitoring Council (CIMC) provides a platform to advance constructive routine dialogue between government, civil society and the private sector on key economic and social issues. It facilitates the coordination of family and sexual violence interventions, and it provides some oversight of the delivery of public goods, including constituency development funds (DSIP & PSIP) and education programs. It also acts as a partner under the Extractive Industries Transparency Initiative (EITI) and the Open Governance Partnership (OGP). Engagement with civil society is conducted partly under the government-civil society partnership. During 2022, there was active civil society participation in election awareness and independent oversight, as in previous years, with electoral observation by Transparency International PNG and other NGOs. Independent think tanks participated in the parliamentary review of the election and the selection process for ICAC commissioners. Legislation grants them the right to be represented on the board of the National Procurement Commission and other statutory authorities, including the forest and fisheries authorities, but, in practice, these appointments are often manipulated by ministers and officials seeking compliant board members.

Tight funding and diversion of government and donor funds during the COVID-19 pandemic restrained CIMC programs and those of many other civil society partners during the period from 2020 to 2022. However, support and engagement are increasing again during the second half of 2022 and into 2023, as reflected by enhanced funding for civil society engagement in the 2023 Budget.

The government has committed to the Open Government Partnership (OGP) process, with a National Action Plan (NAP 2, 2022 – 2024) focused on freedom of information, fiscal integrity, EITI and public participation. Under the patronage of the minister for national planning and monitoring, the OGP is composed of government and civil society representatives, and co-chaired by the government and civil society. Progress with the NAP was delayed during the pandemic, but progress was made on some of its targeted outputs in 2022, and further progress is expected in 2023.

Public
consultation

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'06 _____ '24 10



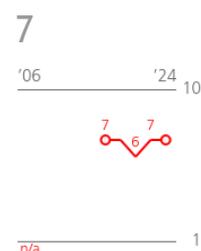
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On fiscal integrity, the government has long committed to greater engagement during the budget preparation and oversight process, including through the provision of more publicly accessible budget documents (or citizens' budgets), while the auditor-general has stated eagerness for public participation during the preparation of audits upon their release. However, it remains to be seen if these words result in tangible action.

The main issue with regard to conflict reconciliation and addressing historical acts of injustice relates to the conflict between the central government and parts of the population of the now Autonomous Region of Bougainville (ARoB). The conflict between PNG government forces and the self-declared Bougainville Revolutionary Army occurred from 1988 until the mid-late 1990s and was the longest and bloodiest internal conflict in the South Pacific. It resulted in 12,000 and 14,000 deaths. It also closed the major open-cast Bougainville copper mine in 1989, which at the time was the main revenue source for the national government and the province. At the height of the conflict, between one-third and one-fourth of the population were internally displaced and lived in refugee camps controlled by the PNG security forces.

Relative peace and restoration of services returned to the north of the province by the mid-1990s. Negotiations brokered by New Zealand, and driven by the women of the province, ended fighting in 1997, and dialogue between the government and the rebels led to the installment of the so-called Autonomous Region of Bougainville (AROB). In 2005, elections for an autonomous government were held. The real test for reconciliation, however, was the independence referendum held in December 2019, facilitated by the electoral commission and international partners. Successfully and peacefully conducting the referendum was an achievement of the national and Bougainville governments, supported by development partners, as initially some factions, such as Panguna landowners, indicated a refusal to participate. With a very high turnout, voters overwhelmingly voted in favor of independence. While the central government vowed to respect the result of the plebiscite, it is only advisory to the national parliament, with no set schedule for implementation, although the new (post-2020) president of the Bougainville government, a former secessionist leader, has targeted 2025 for full independence. Sustaining community engagement and support over the next few years as arrangements for independence are set in place will be critical.

Reconciliation



17 | International Cooperation

PNG is increasingly subject to the interests of regional/international strategic players. This provides economic and wider development opportunities for PNG. However, access to loans and development assistance often comes with confidentiality clauses, extensive use of overseas contractors and labor, and some uncompetitive terms (e.g., loans under the Belt and Road Initiative). PNG is rather prone to signing deals without examining or negotiating terms, which poses a major risk and can result in unfavorable financial obligations. In some cases, these arrangements are intended to provide economic and employment opportunities or access to natural resources for the overseas SOE and overseas nation. However, there are risks in contracts in strategic areas such as ICT and security with nations that clearly show anti-democratic or autocratic inclinations.

According to World Bank data, the level of official development assistance (ODA) received (in constant 2020 prices) increased steadily to \$1.06 billion in 2021, with a large hike during the years of the COVID-19 pandemic. In relation to GNI, official development assistance fell from 23.7% of GNI in 1975 to 2.6% in 2016, before rising to 4.6% in 2021. PNG's ODA is characterized by its concentration, with Australia providing 43.6% of assistance in 2022. During and post the pandemic, Australia shifted major funding into budget support, including through concessional loans. However, there was some anxiety by lenders regarding the level of influence over the application of financing conditions, such as associated sector reforms and financing by the government. The current figures for ODA from China are much lower than in previous years when loan finance increased rapidly during the late 2010s until the pandemic. In 2021, China provided 15.3% of total loans and 7.7% of all grants.

The PNG government has sought to incorporate funding, priorities and activities from development partners into the Medium-Term Development Plan (MTDP 3, 2018 – 2022; MTDP 4, 2023 – 2027), notably under the auspices of the PNG Development Cooperation Policy (2018 – 2022). Although development partners emphasize their alignment with government priorities, they apply considerable discretion in their interpretation and application, aligning with their own governments' thematic priorities or global programs. Despite the medium-term nature of the MTDP 3, major projects have been delayed or remain unimplemented due to frequent changes of government and changes to policy and programming, natural disasters, the COVID-19 pandemic, and the slow rollout of new procurement rules and implementation capacity. Most donors follow PNG's procurement rules, and the National Procurement Act does allow the donors' jurisdiction to be applied, as is the case, for example, with Chinese assistance.

Effective use of support

7



The PNG's strategic importance in the Indo-Pacific region has increased over recent years. This is reflected in increased Chinese trade, investment and resource interest in PNG, as well as increasing financial assistance, political, security and cultural engagements. A hastily initiated effort by China in 2022 to sign up a regional and economic partnership with the Pacific Islands nations was rejected by the Pacific Islands governments, but individual countries signed education and other bilateral arrangements. Suggestions of China funding special economic zones, including fisheries and airport development in southern provinces in PNG, including next to the border with Australia, have caused regional anxiety, even if some of these initiatives seem more about geopolitical posturing.

The United States declared PNG a fragile nation under its Global Fragility Act 2019, which enables closer support on security, peace and reconciliation, as well as wider development support to complement heightened engagement already occurring in other fields such as trade, environment and power generation.

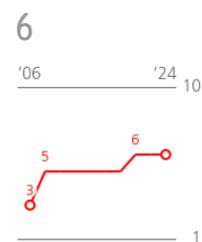
As PNG's dominant development assistance partner, and major trading partner, Australia's engagement was shaped during the 2010s by the latter's focus on the off-shore detention center for asylum-seekers located in Papua New Guinea, and associated leverage by the PNG government for securing infrastructure support. With a change of government in Canberra in 2022, the tone has shifted, with Australia adjusting to an active leadership role on climate change, an issue on which the Pacific Island nations have been vocal. Australia's new approach has emphasized listening and engaging rather than hectoring on wider regional and security issues.

PNG's need for major financing during the COVID-19 pandemic and for the sustainability of its budget resulted in greater grant and loan financing from traditional development partners, including Australia, the IMF, the World Bank, the ADB and the European Union. This came with loan conditions, applied relatively lightly by some development partners. Conditions imposed by the IMF are likely to be stricter in 2023 and geared toward fiscal stability, reducing debt-to-GDP, a focus on public expenditure, some structural adjustment, and a more market-driven exchange rate mechanism.

Chinese assistance, which is composed primarily of loan finance, is delivered through mechanisms such as the Belt and Road Initiative, and focuses on energy, transport, telecommunications and data management projects. It comes with extensive conditions, such as the use of Chinese contractors and employees.

In response to a proposed Huawei-installed fiber-optic cable to Australia and a possible Chinese acquisition of PNG's largest mobile phone network (Digicel), Australia proposed an Australian-funded fiber-optic cable from Port Moresby to Sydney (completed in early 2020) and the takeover of Digicel by the Australian telecommunications company Telstra, again largely financed by the Australian government. Continued Japanese funding of bridges and other infrastructure, as well

Credibility



as further engagement by New Zealand, notably in agriculture, and World Bank projects in agriculture, health and infrastructure are ongoing, albeit somewhat delayed during the pandemic. Heightened regional competition has provided PNG and its neighbors with some leverage and opportunities. PNG needs to navigate its position cautiously. There is concern from development partners, including China and India (whose export credit financing has not been significantly drawn down over several years), about PNG's credibility and capacity regarding implementation and cooperation, and readiness to comply with agreements.

The Pacific Islands Forum (PIF) is the region's premier political and economic policy organization. It comprises 18 member countries, including Papua New Guinea, Australia and New Zealand. The forum provides extensive regional support to member nations on environment and resource management.

Fisheries management and climate change, sea level rise and marine pollution have been major issues for the forum, which normally works on a consensus basis with camaraderie between the island leaders. However, there is invariably some tension with respect to the larger (former colonial) powers if they appear to be seeking to dominate the agenda, despite the fact that they provide most of the funding. During the period under review, the forum restored consensus, notably over the secretary-general's position, following the withdrawal from the forum of some Micronesian nations. This reconciliation was facilitated by extensive regional diplomacy, including from PNG.

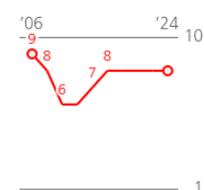
Other important regional mechanisms include the Parties to the Nauru Agreement, which manages oversight of the main Pacific Island tuna resource, working collaboratively with the Framework Financing Agreement (FFA). PNG is also party to the Melanesian Spearhead Group (MSG) of the Melanesian countries, although its performance is inconsistent, and the Pacific Community (SPC), comprised of 27 Pacific island countries and territories (the French territories are not members of PIF), and serves as the largest scientific and technical organization.

PIF and MSG raise issues related to the Indonesian presence and human rights in West Papua and Papua provinces (what was formerly called Irian Jaya), with dialogue over whether to allow full or just observer status to West Papuan Melanesians in the PIF or in the MSG. New Zealand and some Pacific Island nations, such as Vanuatu, regularly raise issues related to human rights abuses by authorities and decolonization in West Papua, with PNG and Fiji generally taking a diplomatic low-key approach.

Since disagreements emerged over the Solomon Islands' security agreement with China, PNG's security arrangements (developed through PIF under the regional assistance program RAMSI) have seen its police provided assistance during 2022 to help sustain peace and order. The Solomon islands are more reticent to sustain the former Australian security presence.

Regional cooperation

8



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Strategic Outlook

Entering 2023, PNG is grappling with notable governance deficiencies and pervasive corruption. The aftermath of the deeply flawed 2022 national election casts a shadow, while the economy, although in the process of recovering from the challenging years of the 2010s and the COVID-19 pandemic, shows modest signs of growth with little job creation. The country's economic landscape is characterized by elevated public debt and the accompanying costs of debt servicing. While concessional funding is accessible, it comes with conditions. Furthermore, the market contends with limitations in available foreign exchange. Additional problems include mounting economic inequality and marginalization, increased urban living expenses, a spectrum of law and order predicaments, and the encroaching specter of climate change, which already impacts coastal and some island communities. In addition to other sector plans, the Medium-Term Development Plan 4 provides some opportunity, along with fiscal and debt management plans.

The PNG government has made some progress on education and initiated projects on governance and certain aspects of infrastructure. However, it has not prioritized effective partnerships with the private sector to attract necessary investments, promote job creation, and consequently increase revenue. Urgent government reforms should aim to establish stable and favorable conditions for investment in various sectors, including SOE activities, as well as promote more sustainable and environmentally friendly energy options.

The government must focus on tackling governance and accountability challenges, stabilizing the economy and debt levels, restoring investor confidence, and securing more sustainable growth prospects. This is critical to generating jobs and revenue. It requires avoiding unduly intransigent positions and immediately ensuring mothballed mining projects and their jobs (notably the Porgera goldmine) are restored. Some of the additional resource projects (notably Papua LNG) must proceed in the near future. This would provide both short- and long-term economic stimulus and strengthen the investor outlook. Ending the current ambiguity over investment, and particularly foreign investment, would be valuable.

Special economic zones (SEZs) need to be treated with greater prudence; they are no simple panacea. They may have a role under certain circumstances, but past experience in PNG has shown these to be problematic, providing avenues for corruption (as with PMIZ) rather than economic development. Additionally, multiple SEZs risk creating an unmanageable scenario of multiple tax and customs jurisdictions, each with different conditions and concessions, often attracting unscrupulous instead of genuine long-term investors.

Papua New Guinea faces four underlying challenges: firstly, a lack of employment opportunities (especially for young people). Secondly, it has low revenue for the size of its economy, with taxation falling on a small segment of the community. Thirdly, the economy has long been distorted by its resource sector, leading to a cost structure that undermines broader-based economic activity. The fourth challenge involves restoring credibility in government institutions among the public and investors. Unfortunately, problems of poor governance have escalated across much of the public sector and political structure.

Addressing the flaws of the 2022 election and the role of the Election Commission must not be left until the last minute before the 2027 election. Many of the issues have been highlighted in previous elections, with accompanying recommendations never implemented. However, the need for action has become more urgent after the elections in 2017 and 2022.

The rhetoric on reclaiming the economy is captivating but requires refinement, placing the utmost priority on attracting limited investment and fostering economic growth and opportunities for ordinary Papua New Guineans. Given that existing regulations concerning resource management, investments, and employment are already easily evaded by unscrupulous individuals, expanding these restrictions to encompass various other sectors would likely only discourage much-needed investment, undermine business confidence, impede job creation, and fail to provide increased opportunities for local entrepreneurs. Unless and until the government genuinely concentrates on addressing the acknowledged hindrances to business and investment in PNG, enacts fair implementation of regulations, and establishes a more equitable playing field, true progress will remain elusive.