THE IMF AND WORLD BANK IN PAPUA NEW GUINEA: ALL POWERFUL?

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ABSTRACT

In international political economy, international institutions like the International Monetary Fund (IMF) and World Bank are often looked upon as significant forces, capable of imposing their will on sovereign governments. Through the onerous conditions attached to their loans and assistance, these institutions, it is argued, are able to interfere in the economic and political affairs of a country, with significant implications. This thesis assesses this claim with reference to Papua New Guinea (PNG) in the 1990s. It suggests that while severe demands were certainly placed on the government on the occasions assistance was requested, owing to the unique socio-political structure of PNG, demands in some critical areas have been circumvented or even ignored. It appears, therefore, that at least in the case of PNG, these institutions have not been wholly successful in imposing their agendas. In the light of this, the wider assertion of the IMF and World Bank being all-powerful should be treated with some caution.

CONTENTS

ACRONYMS / ABBREVIATIONS.

AAID	Australian Agency for International Development.
AIDAB	Australian International Development Assistance Bureau
ADB	Asian Development Bank
AUSAID	Australian Agency for International Development
BBC	British Broadcasting Corporation
BPNG	Bank of Papua New Guinea
EDF	Electoral Development Funds
EIU	Economist Intelligence Unit
GDP	Gross Domestic Product
IFIs	International Financial Institutions - the World Bank and the IMF
IMF	International Monetary Fund
LDC	Lesser Developed Countries
LTC	Land Tenure Conversion
MLAR	Minimum Liquid Asset Ratio
MP	Member of Parliament
MRSF	Mineral Resources Stabilisation Fund
MUG	Minimum Unconditional Gramt
NGO	Non-Governmental Organisation
OLPG	Organic Law on Provincial Government
OLPGLLG	Organic Law on Provincial Governments and Local-Level Governments
PNG	Papua New Guinea
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Programme

Source: Bateman 1999

CHAPTER 1

1.0 Introduction

This thesis examines the relationship between the International Monetary Fund (IMF), the World Bank and the small developing nation of Papua New Guinea (PNG) in the 1990s. During this period PNG was forced to approach the IMF and World Bank for assistance. In response to financial crises in 1990 and 1994, Papua New Guinea requested help from the two organisations. On each occasion substantial financial assistance was given.

International financial institutions (IFIs) like the IMF and World Bank are powerful bodies that lend financial assistance to countries experiencing economic crises or development problems. These two aid agencies, however, impose structural reforms on governments as a condition of their loans. For much of the eighties and nineties these reforms were based on a neo-liberal economic philosophy that sought to promote the operation of markets within an economy. Policies directed at devaluation, trade liberalisation, public sector reform, privatisation and budget austerity formed the backbone of conditionality and those applied to Papua New Guinea in the 1990s were no exception.

In the field of international political economy, it is widely believed that as a result of these interventions, the IMF and World Bank are capable of significantly shaping the economic and political destinies of countries with possibly deleterious consequences. These institutions, indeed, are often portrayed as international hegemons, holding sway over the international economic system and effectively running entire countries. This thesis, however, will suggest that in the case of Papua New Guinea, the IMF and World Bank have not been wholly successful in imposing their entire agenda, particularly in the crucial areas of fiscal responsibility, public sector reform and land reform. This lack of success, in turn, was due in no small part to the unique socio-political structure of PNG, which thwarted the imposition of IMF and World Bank agendas.

By way of introduction, this chapter will first review the literature examining IMF and World Bank interventions. This is the task of Section 1.1. Section 1.2 will then move on to describe the relationship between the IFIs and PNG in greater detail. Finally, in Section 1.3, the overall structure of the thesis will be detailed.

1.1. The IMF and World Bank: All Powerful?

The International Monetary Fund and the World Bank were formed in 1944, in the dying stages of World War II. Delegates from forty-five countries, including the Soviet Union, met and within three weeks wrote the statutes of the World Bank and the IMF. The IMF was designed to defend the international monetary system, which meant helping governments overcome balance-of payments problems. The World Bank, by contrast, was primarily to act as a development institution, investing in programmes that assisted in post-war reconstruction (Bakker 1996: 12) .

Although more than 50 years have passed, the two organisations still have broadly similar objectives. The IMF is heavily involved in stabilising the world's economic and financial order, as witnessed by their actions in the recent financial crises in Asia, Russia and Brazil. The World Bank, on the other hand, has moved away from the financing of development projects such as highways and dams and now supports the Fund programmes with loans for specific ends. Today, these often include financial support for social networks to protect the poor from some of the worst effects of these IMF programmes (BBC 1999). Both organisations have introduced particular lending facilities in response to the increasing debt situation of many developing countries, one of the most important of which is the structural adjustment facility.

Structural adjustment lending provides finance for developing countries to carry out policies which involve broad institutional and economic change. It is designed primarily to affect the supply side of the economy by increasing productive capacity, as well as the demand side by forcing governments to reduce credit, the money supply and government spending (Ingham 1995:367). Although the IMF and World Bank have a different set of priorities, there has been cooperation between the two institutions in the design and implementation of structural adjustment programmes for developing countries since the 1970s (Shand and Stewart 1997:58).[1]

This structural adjustment facility was developed by the IMF and World Bank in 1986 when it became clear that many poorer member countries could not cope with the strict credit arrangements of traditional loans.[2] The new facility provided funds for economic reform programmes at low interest rates (0.5%) and periods of up to 10 years.[3] Under this facility, policy framework papers were drawn up for three years with the help of IMF and World Bank staff, laying down a detailed macro-economic adjustment programme. The member government signed a "Letter of Intent" laying out the elements of the recovery plan, and in return the Fund committed itself to grant loans in stages, as and when economic targets specified in the Letter were achieved (Bakker 1996:30). Thus, having signed "Letters of Intent" countries were obliged to carry out reforms if they wanted additional funding. In addition, member governments knew that these programmes influenced the amount and type of aid that other countries were prepared to give. In other words, they knew that unless they agreed to the conditions, borrowing from other countries would be difficult. The IMF expressed the conditions in clearly stated and monitorable performance indicators and retained the power to halt disbursement of the loan if conditions were broken (Mosley, Harrigan and

[1] The Fund concerns itself mainly with the balance of payments and macroeconomic stabilisation, which are short-run considerations. The World Bank, on the other hand, is more concerned with the medium-term growth prospects of the economy (Shand and Stewart 1997:58).

[2] This new facility was a result of the Brady Plan which reflected a shift in US policy toward Third World funding (Stallings 1992:86).

[3] An Enhanced Structural Adjustment facility (ESAF) was created in 1987 and increased the amount available for loans designed to reduce commercial debt (Bakker 1996:24).

Toye 1991:66). [4]

These arrangements form the basis of the IMF and World Bank's power over host governments and the justification for involvement in a country's economic and political affairs. Using the "Letter of Intent " and the "advisory" groups that monitor policy implementation and assist budget preparation, the IMF and World Bank are able to directly influence the economic direction of a nation. IMF staff teams visit member countries on a regular basis for the purpose of policy surveillance under Article IV of the IMF Articles of Agreement. Meetings are held between Fund staff and member country ministers concerned with finance and economic planning. From these meetings, the economic policy objectives and proposed measures are drawn up. Bakker (1996) suggests that the IMF refrains from detailing specific measures, such as imposing individual government programmes, because this would infringe national sovereignty. The experience of many developing countries, and Papua New Guinea in particular, however, would tend to suggest otherwise. In 1994, for example, IMF/World Bank loans were accompanied by no less than 27 specific conditions that directed government activity (Muwali 1996: 17-18) while talks in 1998 have enlarged this list to more than 40 conditions (EIU 1998c: 14).

This "hands on" approach to running economies gained momentum in the 1980s as many more countries were forced to apply for IMF/World Bank assistance. Between 1987-1989 seventy countries were subject to IFI loans

[4] This states that the Fund should exercise "firm surveillance over the exchange rate policies of its members" (Fischer 1995:175)

and conditions (Krueger 1995: 5-7). As a result of the ready availability of international credit in the 1970s, many developing countries had borrowed heavily.[5] The oil price increases of 1973-74 and 1979-80, however, and the accompanying increase in interest rates in industrial countries, forced much of the developing world into a debt crisis in the 1980s (Ingham 1995:371-372). Consequently, many countries were forced to apply for assistance from the IMF and World Bank and, as a result, adopt stabilisation and structural adjustment programmes. For many of these borrowing nations assistance was required just to service the interest on their debt. Zhang (1998) suggests that even if 90 percent of the debts for countries such as Guyana, Mozambique, Tanzania and Uganda were written-off, their remaining debt would still be at an unsustainable level of over 200 percent of the value of annual exports and services. With such burdens, it was not surprising that so many countries had to resort to IMF/World Bank assistance.

The conditions imposed by the IFIs raised serious questions about the ability of sovereign nations to determine their own economic, political and social future. Broadly speaking, two schools of thought emerged on this issue. One maintained the view that through conditionality, the IMF and World Bank were all powerful, able to impose their will on a nation . The other school of thought suggested that the influence of the IFIs was limited and that countries were able to, and frequently did, circumvent IFI conditions.

Turning to consider the latter view first, this is one that believes that the ability of IFIs to impose programmes from the outside is limited (Remmer 1986:21).

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[5] Between 1970 and 1982, Third World countries received US$ 480 billion (Stallings1992:58).

The reason for this is that the political interests of many governments inhibit the full implementation of IFI programmes. These political interests may oppose the content of the programmes or the model of how the economy works. They may also be reluctant to appear subordinate to an external agency as this might lower their political legitimacy. Also, they may resist reforms as conditionality will affect their economic interests (Kahler 1992:100). [6]

Although the IFIs may have leverage through conditionality, implementation ultimately depends on domestic governments, and for the reasons mentioned above they may ignore demands. This view has been supported by some empirical evidence. Haggard's (1986) study of IMF Extended Fund Facility programmes found a high level of non-compliance and programme cancellation due to domestic factors. Further, Moseley, Harrigan and Toye (1991) found in their survey of countries receiving World Bank structural adjustment loans that very few met more than two-thirds of the key conditions attached to the loan (Haggard and Webb 1993). It was thus argued that the IFIs were not all-powerful and that local governments were able to ignore demands and protect their own sovereignty.

There is, however, a significant body of literature, that opposes this view and suggests instead that the IMF and World Bank are all-powerful. This argument was put as early as the 1960s. Neo-Marxists and dependency theorists saw the industrialised countries, of which the IFIs were important

[6] See also Dell (1981), Killick(1984), Kahler(1990), Mosely(1987).

agents, as having a destructive influence on the development of Third World countries.[7] To them, the relationship between the industrialised centre and the poorer periphery was one of exploitation, driven by the advanced capitalist nations' desire for profitable investment outlets. Surplus or profit from these investments would be transferred from the poor developing nations to the rich industrial world contributing to the continued underdevelopment of the LDCs. Consequently, capitalist development of LDCs was impossible or, at best, inappropriate. Within this framework, the IFIs were seen as accomplices whose aid opened up the country to foreign capital, protected Western (mainly United States) interests and contributed to the control of poorer nations by the donor community (Todaro 1981:84).

Others saw the relationship between the IFIs and developing countries in a different but equally uncomplimentary light. Jackson (1990) suggested that conditionality imposed a patron - client relationship which was both economically destabilising and quasi-colonialist in its overriding of national political priorities. He noted that African governments were more likely to be subjected to economic requirements, while political and humanitarian standards of conduct were far more demanding than they had experienced under colonialism. The IMF role in these countries, moreover, had contributed to the recolonisation of the Third World by international bureaucracies (Jackson 1990:129). This recolonisation was aided by the establishment of a significant degree of administrative power through the auspices of the SAP (Pacific News Bulletin 1994:9).

[7] See Baran (1968), Baran and Sweezy (1968), Magdoff(1966), Amin(1974) and Frank (1966)

One such economic requirement imposed concerned the supply of money - a fundamental instrument regulating the mobilisation of human and material resources. Under the conditions of a loan the IMF tightly monitors Central Bank activity. The agreement signed between the government and the IMF prevents the funding of government expenditure and the provision of credit by the Central Bank through money creation. This "freeze" on money creation can be a destabilising influence as it obliges the government to curtail real expenditures, reduce real wages and lay off civil servants. In the Russian Federation, for instance, the IMF-sponsored restrictions by the Central Bank to state enterprises have led to the disintegration of many sectors of the Russian economy (Chossudovsky 1997: 24). In Papua New Guinea, the IMF insistence on a tight monetary stance continued even when interest rates rose as high as 30 per cent (Post Courier 14/7/98). Apart from devastating the economic landscape, this restriction on domestic monetary policy makes a country increasingly dependent on international sources of funding, thereby increasing the level of external indebtedness.

Apart from monetary policy, IFIs can also significantly alter the broader approach and philosophy underpinning development policies in countries. Many developing countries have relied on state-led development because their private sector was small and centralist tendencies had already been initiated by previous colonial masters. Keynesianism, the dominant economic philosophy of the post-war period, added emphasis to a strong government role in the economy through demand management. The conditions of the structural adjustment facility, however, emphasise "market- friendly" development and aim to weaken this government role. Conditions such as privatisation and trade liberalisation remove from national government the opportunity to develop their own state-owned enterprises, collect taxes through import tariffs and protect any "infant-industries". In Papua New Guinea, for example, import tariffs were abandoned and to make up the revenue shortfall, an extra K130 million was to be raised by introducing new taxes such as a value added tax (Post Courier 14/07/98).[8] This held serious implications for the future development of PNG. In effect, the IMF and World Bank had overriden sovereign government industrial planning and revenue raising, and assumed control over the development pattern of the local economy.

The experience of many developing countries suggests that the effects of such control are not always positive. Structural adjustment reforms primarily seek to ensure countries are better able to service debt repayments. Consequently, the economy is directed towards, amongst other things, export based development. For many developing countries, this has involved a shift in the nature of the economy which has not always been advantageous for the majority of the rural population. In agriculture, for example, farmers have increasingly abandoned traditional food crops and been encouraged into cash crops for export (Chossudovsky 1997:106). It has been noted that in the case of Malawi and Vietnam, this has been a contributing factor in local-level famine Malawi, for example, was once a net food exporter, but maize

[8] See also Yala and Levantis(1998 : 15).

production declined by 40 per cent in 1992, while tobacco output doubled between 1986 and 1993 as increasing areas of the best land were allocated to tobacco production (Chossudovsky 1997:107) . In Vietnam, where World Bank policies advocated "regional specialisation", farmers moved out of rice production and into cash crops, which led to famine when world commodity prices plummeted (Chossudovsky 1997:158). Thus the demand for export-led development, a major aspect of the structural adjustment package, very often undermines a nation's self sufficiency.

Recent events in Asia have further reinforced the perception that the IMF and World Bank may unduly intrude on the destinies of member countries. During the Asian financial crisis of 1997-98, countries such as Thailand, South Korea and Indonesia were forced to implement IMF policies in return for assistance. These programmes required governments to reform their financial institutions and to make substantial changes in their economic framework. In South Korea, for example, specific numbers of bank closures were imposed, while other banks were forced to open up to foreign investment. Pyan (1999) argues that this is yet another instance of the IMF overriding national sovereignty. Every nation has the right to regulate its own banking system, with foreign banks allowed access into a country only after bilateral negotiations between the nations involved. Access should not be at the insistence of some external agency.

Apart from its economic interventions, the Fund and the World Bank have also played a significant role influencing political developments in countries.

Through their funding of military dictatorships, governments that flouted civil rights and leaders who promoted crony capitalism, the IFIs were powerful political brokers (Horowitz 1987:97). These brokers, it was suggested, used a double standard, favouring certain countries because of their geopolitical situation, international weight or political orientation (Bienen and Gersovitz 1985:749). More recently, reflecting a more wholesome image as agents promoting greater transparency, accountability and democracy, these IFIs have abandoned some of their former favourites - most spectacularly, in the case of Suharto in Indonesia.

Indonesia under Suharto had been the recipient of substantial IMF and World Bank assistance over a prolonged period, and in some instances, on very favourable terms.[9] This was despite Suharto's long history of crony capitalism and dictatorial leadership that left anyone who was well connected beyond the reaches of the legal system (Marinova 1999:73). The financial crisis of 1997-98, however, forced Indonesia to apply for a substantial bail-out package, this time with stringent conditions attached. Suharto was reluctant to loosen his grip on the economy and would not implement some of the required reforms (Tripathi 1998:18). In an atmosphere of economic and social turmoil, the IMF finally turned its back on Suharto and withheld funding, forcing a further run on the rupiah This resulted in a loss of investor confidence, rioting in Jakarta and ultimately Suharto's resignation. His successor, President Habibe, though initially supported by the IMF, was also cast aside when he was continually hounded over the Bank Bali scandal

[9] In 1987 Indonesia received US$300 million from the World Bank as a Trade Adjustment Loan. The country was completely exempted from conditionality (Mosley et al 1991:111).

(Baum 1999: 13). Hence, although there is no provision for political involvement in their charters, the IMF and World Bank can manipulate the political future of sovereign nations.[10]

To summarise this section: There is a strong body of opinion within the literature examining the activities of IFIs that their interventions are highly intrusive and severely undermine the economic and political sovereignty of states. Another school suggests, however, that this may not necessarily be the case- that IFI conditionality can and has been resisted successfully in many countries. To assess which of these perspectives is the more relevant in the case of PNG, a detailed examination of the relationship between these IFIs and PNG will be necessary. This is the task of the following section.

1. 2. The IMF and World Bank in Papua New Guinea

Papua New Guinea is a small developing Pacific nation. Its population of 4.5 million is tribal in nature, boasting in excess of 1,000 tribal groups speaking more than 800 different languages (Lakau 1995:97). Past development has largely been driven by mineral extraction and untied Australian aid (the latter amounting to as much as A$300 million per annum) (Callick 1993). Partly as a result of this, the economy exhibits a typical dualistic structure. On the one hand, there is a "modern" formal economy built around the mineral extracting

[10] Article IV, Section 10 of the World Bank charter, for example,states that " the Bank and its officers shall not interfere in the political affairs of any member country" (Miller -Adams 1999:102)

industries and public sector. Largely urban - based, the "modern" sector is relatively small, providing around 225,000 jobs, of which more than 60,000 are within the public sector (IMF 1998:23). Co-existing with this formal sector is a far larger informal economy where nearly 85% of the population survives through subsistence agriculture (World Bank l995:123).

The GDP of Papua New Guinea was equivalent to approximately US$1,130 per person in 1996 (AAID 1997:1). This places PNG in the lower to middle income category of World Bank rankings, along with countries such as Indonesia, the Philippines and Morocco (World Bank 1997 :196). Growth of real GDP per person between 1986 and 1996 was significantly lower for people in the informal economy and recent poverty assessments indicate that at least a quarter of the population suffers from malnutrition (AAID 1997:2). Compared with other South Pacific and Asian countries in the same income group, PNG ranks last in terms of most major social indicators including life expectancy, infant mortality and adult literacy (AAID 1997: 2).

Unlike many other Pacific island nations, PNG's size and abundance of natural resources gives it a potential for economic growth that others do not possess. Growth, however, has largely been erratic and dependent on Australian aid and mineral extraction. Since independence in 1975, Australia has been the principal donor of foreign aid to Papua New Guinea. Initially, the aid had been in the form of a budgetary grant, and in 1977, this amounted to as much as 39 per cent of the PNG budget (Connell 1997:308). In 1992, however, the approach was revised and budgetary aid was to be phased out by 2000 and replaced with project aid.[11] The commencement of major mining and petroleum ventures - Bougainville Copper Mine in 1974, Ok Tedi gold and copper mine in 1984, Misima gold mine in 1989, Porgera gold mine in 1990 and Kutubu oil in 1992 - has boosted GDP but not provided consistent growth (Muwali 1997:6). Furthermore, being heavily reliant on these mineral exports and to a lesser degree, agricultural products, PNG has become particularly susceptible to the vagaries of the international commodity trade.

A combination of weak agricultural commodity prices (coffee, copra, palm oil) and the closure of the Bougainville copper mine in the midst of the rebellion on the island in 1989 led to a worsening in the trade balance in the early nineties (Stein 1992:25).[12] The output of the Bougainville mine accounted for thirty per cent of the value of the country's exports, about 10 per cent of GDP and 16 per cent of national revenue (Connell 1997:35).[13] As a result of its closure, the Bank of Papua New Guinea projected that the balance of payments would have risen to around K270 million in 1990, leaving foreign exchange reserves at an unsustainably low level. The government, aware that it could not rely on foreign reserves and that the closure of the mine would make it difficult to attract short-term capital, negotiated a rescue

[11] By 2000, Australia aimed to replace A$300 million of budget aid with A$300 million of aid in the form of projects in six priority areas: education, health, infrastructure, renewable resources, law and order and the private sector (Callick 1993).

[12] For an analysis of the development of the mine and the reasons behind its closure see, Quodling (1991) .

[13] Up until the mine closed in May 1989, the company paid more than A$1 billion in tax and dividends to the PNG Government, $33 million to landowners ($28.5 million in compensation and $4.5 million in royalties) and another $83 million in royalties to the Provincial Government (Dorney 1998: 40).

package from the IMF and World Bank in 1990, consisting of concessional loans and grants (Kavanamur 1998:103). The conditions attached to these loans were typical for the time and firmly in line with the most orthodox market-orientated stabilisation and adjustment programmes. Specifically the government agreed to a set of policy measures that included the following:

- a 10 per cent devaluation
- a net cut of K80 million in Government expenditure, of which a major part was retrenchment of public servants
- a restrained wages policy, including an agreement between the government and the Public Employers Association to discount up to 2 percentage points from wage increases, as determined by the Minimum Wages Board
- a tight monetary policy stance
- a package of structural adjustment measures to deal with weaknesses in the non-mining sector, including human resource development, investment deregulation, trade reform, privatisation, broadening the tax base and policies to improve land registration (Kavanamur 1998:103).

Government commitment to IMF and World Bank reforms, however, was only transitory. By late 1990, the government had already begun to relax the tight monetary and fiscal stance required by the IMF (Kavanamur 1998:104). Budgetary cuts were less than the anticipated K80 million, while a situation of enhanced liquidity in the face of limited borrowing caused interest rates to drop, contradicting IMF stipulations that real interest rates should rise. The required reductions in the size of the public service were also not met. In fact, numbers increased due to new recruitment in law enforcement and education (Stein 1992:27).

Encouraged by the prospects of increased mineral revenues from new mining and petroleum sources, the PNG government abandoned fiscal restraint and undertook expansionary fiscal policies from 1991 (IMF 1998:12).[14] The newly - elected Wingti government of 1992 continued such expansionary policies, including tax cuts, free education and commodity price support schemes for cash crops such as copra, cocoa and coffee (Duncan and Temu 1995:15).[15] These policies were aimed at promoting growth but also improving the educational and financial conditions of the rural populace from which the majority of the government drew its support base.[16] Many of the conditions imposed by the IMF and World Bank in 1990 had by now been abandoned (Kavanamur 1998:106).[17]

Unfortunately, the hoped for boom in the minerals sector never fully eventuated and, combined with the decline in Australian budgetary aid as a result of a shift from direct budget support to programmed assistance, the government found itself facing rapidly declining transfers of foreign exchange

[14] The Porgera gold mine began production in 1990 and by 1991 had become the largest gold-mine in PNG producing 1.2 million ounces of gold (Connell 1997:123), while the first commercial oil from the Kutubu oil field began to flow in mid-1992 (Connell 1997:133).

[15] K98 million (2 percent of GDP) was awarded to the commodity stabilisation funds for major tree crops between 1992-93 (IMF 1998: 8).

[16] For a detailed description of the Wingti government's economic policies see Chan (1992).

[17] Between 1992 and 1994, monetary conditions were loosened with the commercial banks being ordered to lower their interest rates by the Minister of Finance (Muwali 1997: 11).

(Shand and Stewart 1997:54). By mid-1994, the fiscal deficit had climbed to 10 percent of GDP (Asian Development Bank 1997:1). A cash - flow problem emerged, with the government unable to pay for things such as medical supplies (Muwali 1997:12). To stave off further intervention by the IMF and World Bank the new government introduced measures to control expenditure and lower the exchange rate.[18] These measures included a 12 per cent devaluation followed by a float of the Kina, a freeze on public expenditure and an increase in interest rates (Connell 1997:39). These were to no avail, however, as the financial crisis worsened and it became clear to the government that the international donor community (particularly Australia and international commercial banks) were reluctant to lend to PNG unless the government adopted a World Bank/IMF package (Kavanamur 1998:108). Thus, the government was forced into negotiations with the IMF and World Bank again in 1994.

As a result of these negotiations, the IMF provided US$50 million as part of its standby credit arrangements, while the World Bank released US$25 million as the first tranche of a loan.[19] In return, the government had to agree to 27 conditions, the most significant of which were:

- limiting the fiscal deficit to one per cent
- reforming the public sector,including reducing the civil service by 7.5

[18] The Wingti government fell in mid-1994 and Sir Julius Chan took over as Prime Minister.

[19] The government also received US$30 million from Japan's Eximbank and US$50 million from the Australian government (ADB 1997:2).

percent

- improving public services in education, health and agriculture
- diverting development resources to rural areas
- undertaking reforms to enhance competitiveness and restore business confidence
- implementing land reform (ADB 1997:2)[20]

The PNG government, however, viewed many of the conditions as an attack on national sovereignty, and between 1995-99, their relationship with the IFIs deteriorated considerably. The second tranche of the World Bank loan was not released until 1997, while no further funding from the IMF credit line was provided until December 1996 as the Bank took exception to government intransigence and delay. According to Bank staff, the SAP was seriously off track as the government hedged on the implementation of some conditions and deliberately ignored others (Dorney 1998 114-115).

Specifically, they charged that late revisions to the 1995 budget revealed a substantial unfunded increase in public expenditure; that public servants had been granted a wage increase while retrenchment had slowed; and finally that the Forests Minister had amended the Forestry Act to retain control over all appointments to the Forests Board - something that the government had promised not to do (Pacific News Bulletin 1996:4). The Bank issued a 90-day ultimatum for the government to meet nine outstanding conditions. The government, however, met only five (Kavanamur 1998:109). Relations

[20] For the full list of conditions, see Muwali (1997).

sank to a low, culminating in late 1995, with the expulsion of the World Bank advisory group from PNG (Connell 1997:40).

After January 1997, no further funding was provided by the IFIs as PNG continued to operate outside IMF and World Bank guidelines. Subsequent episodes such as the Sandline crisis (where the government secretly hired mercenaries to "solve" the Bougainville problem)[21] and the employment of a former World Bank employee as economic advisor to the Prime Minister, despite World Bank and IMF protests, only served to make matters worse, further alienating IMF and World Bank support. The demise of the Skate government in 1999, through a vote of no-confidence, and the recent appointment of Sir Mekere Morauta, has led to further negotiations with IFIs. The growing list of conditions, however, remain a critical sticking point.

From the details outlined above, it should be apparent that the IMF and World Bank had difficulty in imposing much of their agenda on PNG. Though some concessions and changes were certainly implemented (eg. devaluation of the kina, removal of import subsidies and the institution of wage restraint), the PNG government was able to resist, and indeed, ignore demands on a number of crucial issues. In the light of these developments, a series of interesting questions may be raised for study. Why, for example, was the

[21] The Sandline affair was the result of Prime Minister Sir Julius Chan's attempt to solve the Bougainville crisis. In 1996 his government hired foreign mercenaries at a cost of US$36 million, from Sandline International. The plan backfired when the commander of the PNGDF detained the mercenaries. The government was forced to back down and suspend the contract (EIU 1998-89:10).
The 1998 appointment of the former head of the World Bank mission to PNG, Dr Hamidian-Rad, on a two year K7 million contract as chief economic advisor to the government led to IMF and World Bank refusal to forward previously agreed loans to PNG (Yala and Levantis 1998).

PNG government able to resist and ignore IFI demands? What factors or processes were at work in PNG frustrating the efforts of the IMF and World Bank? These are issues that have not been fully addressed in studies examining IMF and World Bank interventions in PNG. These have tended to concentrate on specific aspects of the structural adjustment programmes themselves.[22] Little attention has been devoted to the broader socio-political content within which these programmes were designed and implemented, nor indeed, the impact of this context on their funding.

To some extent, this thesis attempts to fill some of these gaps in our understanding of a critical period in the history of PNG. The issues it seeks to address, of course, may be done so with reference to a wide range of reforms advocated by the IFIs. To keep the study within manageable proportions, however, the focus shall be confined to three crucial areas: fiscal responsibility, public sector reform, and land reform.

Fiscal Responsibility

Fiscal responsibility remains the prime objective of IMF stabilisation programmes (Killick 1995:142). The principal aim here is to curtail government expenditure and reign in the deficit: in other words, to get the government's books in order. According to the World Bank, this was a

[22] See Proctor(1996), Duncan and Temu (1995),Shand and Stewart (1997), Stein (1992), Yala and Levantis (1998), Manning(1997), Kavanamur(1998) and Muwali (1997)

particularly urgent task in PNG:

> The threat to stability is primarily a result of fiscal imbalances. Government spending has significantly outpaced the large and growing revenue. The resulting fiscal deficits and public debt have exceeded the prudent limits set by domestic saving and the size of the financial system. Of particular concern is the process of setting spending limits and allocating resources, which has shown a progressive decline of fiscal prudence. Corrective actions have been inadequate for nearly five years..... (World Bank 1995: 20).

Despite such concerns, successive PNG governments failed to meet IMF and World Bank dictates on fiscal responsibility, as clearly illustrated by the high levels of government expenditure that were maintained throughout the nineties. Table 1 shows that despite the adjustment measures implemented in 1990 and 1994, expenditure continued to climb throughout the SAP periods.

Table 1 Government Expenditure 1990 - 1998 (Kina millions)

YEAR	AMOUNT
1990	1089.1
1991	1187.8
1992	1358.3
1993	1588.6
1994	1586.6
1995	1570.4
1996	1755
1997	1860
1998	2189

Source: (EIU 1996-97, 98-99)

As government efforts at expenditure control were so weak between 1990-1994, the stabilisation programme of 1995 set a much tougher budget deficit target of 1 percent of GDP. [23] The government, however, was not able to meet this requirement (ADB 1997:3). In 1998, the deficit was approaching 4 per cent of GDP (Gupta and Levantis 1999:51), with little prospect of a reduction apparent.

[23] Although budget deficit levels dropped after 1995 this was because of increased revenues from exports and grants rather than any reduction in spending. (EIU 1996-97)

Public Sector Reform

The IMF and World Bank focus on public sector reform largely followed from its concerns on fiscal discipline. As indicated above, both institutions had already voiced concerns over persistent budget deficits. One cause of such deficits, it was believed, was an over-sized public sector (World Bank 1995:27). Apart from this, the Bank also believed the wage bill took up the bulk of budgetary allocations in PNG and left little for national and provincial departments to fulfill their tasks (World Bank 1995:27). The concentration of financial and political power at the centre, moreover, inhibited service delivery to the provinces where the bulk of the population lived (World Bank 1995:139). The reforms required of the PNG government consequently centered on two broad objectives: reducing the number employed, and thus the wage bill, and decentralising government control so that greater funding would be allocated to the provinces and districts.

Although the PNG government set about a retrenchment programme in 1990, these cuts were illusory as many of those retrenched were subsequently rehired (Stein 1992:26). Later developments during the early 1990s, would further reverse even these modest cutbacks. Under the new Wingti government of 1992, for example, an expansionary fiscal programme was introduced to promote growth in the non-mineral sector and improve the delivery of basic services. This strategy had an important effect on the size of the public service. As Table 2 shows, there was a 9 per cent increase in public employment between 1990 and 1995. This increase took place mainly in the education and security sectors with the extra employment of teachers and police personnel. Despite renewed insistence for a further retrenchment in the 1994 SAP, by 1998 the number of civil servants had risen to 65,000 (EIU 1998b:17).

Table 2 Public Sector Employment Numbers, 1988-95

YEAR	NUMBER EMPLOYED
1988	54 364
1989	54 473
1990	55 452
1991	55 702
1992	52 583
1993	60 442
1994	61 402
1995	60 528

Source: (McGavin 1997:72)

With respect to the decentralisation of government authority to provinces and local government, World Bank demands were again circumvented. In 1995, the national government introduced new legislation, the Organic Law on Provincial and Local - level Governments (OLPLG) which was supposed to improve the decentralisation process by placing greater emphasis on local -level government. What it did, however, was to return power firmly back to the hands of the central government and its national representatives by abolishing elected provincial governments and retaining financial control through crucial political appointments in the newly formed provincial assemblies (Connell 1997:295) .

Land Reform

The World Bank has been promoting land reform as part of its market-friendly approach to development since the 1980s (Platteau 1992:14). In line with its philosophy that economies should promote export opportunities in the rural sector, it was felt that this was best achieved when land was allocated on a privately owned basis (World Bank 1991). In the case of PNG, it was felt that such reforms were long overdue. In the Bank's view, the customary land tenure system in PNG was a major obstacle to development. By restructuring this, far greater commercial opportunities would be established (World Bank 1995:126).

To this end, the World Bank funded a land mobilisation programme that promoted the registration of customary land. A campaign tour was initiated by the government to inform local people of the advantages of customary land registration. Meetings were held throughout the country, but resistance to the idea was immediate. In a meeting held at Enga, for example, more than 2000 people protested while students confiscated and burnt government vehicles (Kavanamur 1998:110). This episode was by no means an isolated incident. Protests and riots dogged the campaign tour throughout PNG. The general perception was that registration was an effort to dispossess people of their land. Eventually the provincial tours were abandoned and the draft legislation indefinitely sidelined. World Bank efforts to strip land of its social significance and turn it into an alienable commodity had failed.

To sum up this section: In three critical aspects of the reform effort in PNG, the IMF and World Bank failed to successfully impose their agenda for change. But why was this the case? What factors or processes were at work in PNG, impeding the efforts of these IFI? A broad range of relevant factors and processes may no doubt be identified. It is the contention of this thesis, however, that the failure of these IFIs owes much to the unique socio-political structure of PNG. Specifically how this point will be pursued will be outlined in the following section.

1.3 The Structure of this Thesis

Given the centrality of PNG's socio-political structure and also to provide some necessary background for the discussion to follow, the thesis begins with a brief chapter highlighting some of the more salient features of this structure. As it will be suggested, traditional customary practices are still important in Papua New Guinea and form the basis of everyday life. Such practices, moreover, are highly evident in the political arena and manifest themselves in a system of patronage politics where local allegiances transcend those of any international agency. These key features of the socio-political structure of PNG will figure significantly in subsequent chapters where their role in thwarting the agendas of the IMF and World Bank will be outlined.

Chapter 3 will focus on fiscal responsibility. It will be shown in this chapter how a key feature of PNG's socio - political structure - traditional obligations and loyalties towards the clan support base - prevented the full implementation of important IFI demands in this area. It will also illustrate how the politics of patronage manifested itself in legislation and action that was in direct contradiction of IMF and World Bank directives.

Chapter 4 will concentrate on public sector reform. It will suggest that the lack of success in this area may once again be traced to PNG's unique socio-political structure. In this respect, kinship networks and the *wantok* system were especially significant, posing a major obstacle to public sector retrenchment. The wider nature of power relations within this socio-political structure, moreover, was also a key factor behind the failure of efforts to decentralise government.

Chapter 5 will address the issue of land reform. It will again be suggested in this chapter that PNG's unique socio-political structure was a major factor impeding the implementation of measures in this area. Land and the system of customary tenure formed the very foundation of kinship and other social ties in tribal society. Dismembering land into discrete parcels owned by individuals would have destroyed this intricate social system, something that Papua New Guineans were not prepared to accept.

The final chapter concludes the thesis. It will also draw out some wider implications of the study and highlight some possible areas for further research.

CHAPTER 2

The Socio-Political Structure of PNG

2.0 Introduction

The central tenet of this thesis is that the socio - political structure of PNG has played a significant part in thwarting IMF and World Bank aims. This chapter attempts to highlight some of the more important aspects of this structure to serve as a backdrop for later discussion. To begin, the political development of PNG, will be traced. Section 2.2 will describe some wider social and political characteristics of PNG. It will highlight the impact that customary practices and expectations have on the political structure of the country, and also It will show that these practices and expectations led to a politics of patronage, pervading all levels of government.

2.1 Political Development

Politics was not foreign to the traditional communities of PNG as political competition and conflict were inherent in Melanesian culture (Woolner 1995:5). The impact of the European since the late 1800s, however, has had a substantial impact on the political structure of PNG.

Towards the end of the nineteenth century, planters and missionaries from Germany, Britain and Australia had established mission settlements and plantations on the coasts and islands. Later exploration by traders and labour recruiters moved these frontiers inland. Initially, Britain claimed Papua - the southern half of the mainland - while New Guinea was claimed by Germany in 1884. In 1914, the region of Papua came under the control of Australia. With the defeat of Germany in the First World War, New Guinea also came under Australian influence, although the two areas were administered separately. This separate administration of Papua and New Guinea was finally unified by the Australian Government in 1945 (Dorney 1990:42).

Between 1918 -1963, the Australians adopted a very *laissez faire* approach to the management of Papua New Guinea. Very little investment in the social, political or economic development of the country was made. The plantation economy still ruled with the major crop being copra. The male populace of PNG was seen as a labour force for the plantations which were all owned by expatriates (Connell 1997:20). An indication of this disinterest may be seen by the fact that between 1951-1963 the Australian cabinet never had a full scale discussion of policy in PNG (Dorney 1990:44). Successive Australian governments were prepared to allow expatriate expansion to operate with as little interference and finance as possible .

Political development was hindered by the general belief, within the colonial administration, that the country would not be ready for self - government for

100 years. Consequently, no effort was made to instigate regional or central government. Instead political development focused on the gradual formation of local government in rural villages (Woolner 1995:2-3). The first step toward political development at a national level was the establishment of a Legislative Council in 1951, which included three selected Papua New Guineans. By 1961 the number of indigenous members in an enlarged Council had grown to only seven reflecting general attitudes that self-government was a still long way off.

The drive toward independence really began, however, with the presentation of a United Nations report in 1962 that recommended swifter progress toward self -government (Turner 1990:14). To this end, a House of Assembly consisting of 64 members, of whom 44 were locally elected, was established in 1964 (Dorney 1990:46). The elections for this assembly were to encapsulate many of the features that characterise PNG politics today. According to Connell (1997:24) there were no real political parties or national political issues and electors voted for candidates they knew in the hope that this would gain them access to government finances. The later 1968 election for the House of Assembly saw the emergence of political parties, such as the Pangu Parti, which pressed for self-government. This issue was lost, however, in the international problems that occupied Australia at the time, namely the emergence of Indonesia as an independent nation and the Vietnam War. It was not until the 1972 election that self - government received national discussion, but even then, there was little support in regional areas. With Gough Whitlam becoming Australian Prime Minister and honouring, promises made on visits to PNG in 1970 and 1971, however, a process was begun that gave PNG self-government in 1973. Independence was eventually gained two years later in 1975.

2.2 Society and Politics

Papua New Guinea is a semi-traditional society. The vast majority of the population (85 percent or 3.5 million) still live a subsistence, village-based lifestyle. This vast tribal structure, each with its own separate *tok ples* (local language) makes it difficult to engender a sense of nation. As the German intellectual, Fishte, noted: "Wherever a separate language is found, there a separate nation exists." (quoted in Canovan 1996:52).

As seen above, nationhood when it was attained, was gifted by the Australians in 1975, without any national struggle for independence - a process which very often forges a sense of national unity. A sense of nation was felt only by a small administrative and political elite, who were close to the colonial administrators, and who stood to gain most from independence.[24] For most Papua New Guineans, the formation of a new nation went virtually unnoticed.[25]

Instead, reflecting its tribal and semi-traditional basis, most Papua New Guineans took their tribal group as their primary point of reference. Even

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[24] Dorney (1990:48) suggests that if a referendum had been held in the early 1970s, Independence would have been rejected by a majority.

[25] See Connell (1997:288-290).

today, many still consider themselves as Tolais or Bukas ahead of being Papua New Guineans.[26] Many still look to the tribal group for support and care. The *wantok* (relations) system remains very strong. In times of trouble, it is one's *wantoks* who will be of assistance. Conversely, when times are good, there is expectation any rewards will be shared within one's tribal group. Connell (1997) refers to this as a reciprocal exchange that bonds traditional clan members together. It should be noted that the *wantok* system has the flexibility to embrace others outside the formal kinship network. In this way an extraordinarily wide range of people can be absorbed into the wantok group (Monsell - Davis 1993).

This system largely reflects traditional Melanesian beliefs toward the distribution of material wealth and revolves around the private transfer of cash and goods between individuals and households within the same clan group. These are not transfers of charity but are part of a system of personal obligations that stem from long-lasting kinship networks. These transfers can take many forms. Apart from the transfer of cash and food, children may be adopted or fostered by better-off families, while an employed relative may move into a needy household to provide some form of income (Gibson *et al* 1993). In this way individuals and households can approach others within the same group for cash, food or shelter and these will be given in the knowledge that these "favours" will be returned some time in the future. As Gibson *et al* (1993) suggest, as long as ties are strong, reciprocity of transfers in times of need is almost guaranteed. Anthropologists, such as

[26] Tolais are a tribal clan from East New Britain while Bukas are from Northern Bougainville.

Belshaw (1965) and Fafchamps (1992), refer to this as a form of mutual insurance where people give to others so that they may be helped if they should come upon future misfortune. The *wantok* system thus, functions as an important safety net providing security through relationships within clan groups.

The commitment to clan and *wantoks* is reinforced by the high level of customary land ownership. In PNG, as much as 97 per cent of all land is held under customary land tenure (Turner 1990). This has been a critical foundation lending further resilience to customary relationships and practices. To Papua New Guineans, land is life as it supports over 85 per cent of the population (Lakau 1995:114). There is a multitude of customary land tenure systems, each developing in its own unique context over thousands of years . Every parcel of land under customary tenure is claimed under ritual or historical association.[27] Claims also often arise on the basis of specific rights and or uses such as settlement, cultivation, foraging, hunting, ritual, pathways, drinking fountains, grazing of animals or other purposes.[28]

Kinship networks form the basis of land tenure. This network binds people together in a web of mutual obligations that constrain a person's freedom to pursue his own best advantage but affords him security within the group dynamic. Land is transferred within the clan according to well-established principles, usually based on inheritance, and is not normally given or sold to

[27] See Crocombe (1987).

[28] For a more detailed analysis of how land use is divided between communal, group and individual rights see Lakau (1995).

non-members of the particular social group. Land remains owned by the group and group members have access to that land for general use (Connell 1997).

This access to land provides all members of a clan with a degree of further security, work and a means of earning some income which is important in a country where unemployment rates are high and there is no statutory form of unemployment benefit, social security or insurance schemes (Lakau, 1995:103).[29] Unlike many developing countries, in PNG, nobody is landless, nor are there any tenanted labourers. The large hacienda, the indebted peasants and the landless millions that characterise much of rural Asia and Latin America are not present in Papua New Guinea. The extended kinship system and customary landholdings are viewed as important options to provide support and security, particularly for those who are unable to find employment in urban areas. A return to the village and its associated agricultural possibilities is always an option (Levantis 1997).

The pattern of human settlement that developed from customary land tenure formed some important economic attitudes and institutions largely at odds with those characterising modern, capitalist exchange economy. For instance, traditional Melanesian societies emphasise the distribution of income and wealth rather than its accumulation (Sillitoe 1998:126). Individuals, moreover work to satisfy the group, and not individual needs (Waiko 1993:14-15). In a modern exchange economy individuals specialise

[29] In 1995, one out of three persons in the labour force was without regular income (Asian Development Bank 1997:6).

according to occupation, selling the goods and services from this specialisation to purchase other goods with money. In traditional societies like in PNG, however, there is no call for specialisation. Furthermore, what exchange that does take place is engaged in for sociopolitical reasons. Material goods change hands as a result of social obligations rather than consumer or utilitarian considerations. In fact, the culture places value not on the production and sale of valuables but on the time-consuming social activities of arranging, negotiating, viewing, giving and receiving them in exchange (Sillitoe 1998:126).

In this context where traditional tribal arrangements have persisted and remained strong, the concept of the state is different from modern societies. According to Grindle (1996), the state is a set of ongoing institutions for social control and authoritative decision making and implementation. It is distinct from the economy and society and has special interests in expanding its scope for autonomous action, asserting control over economic and social interaction and structuring economic and social relationships. Within this context, states have central governments, police and courts which operate in concert to maintain order and direct the country along social and economic lines that have evolved over time.

Traditional PNG political systems, being typical of Melanesian societies, were small and stateless (Sillitoe 1998:92). Given that, the institutions that provide order and direction in a Western sense were absent at independence. Instead, order within them was maintained by a mixture of self-help, reciprocity, gossip, shaming and supernatural sanctions (Larmour 1995:40). A conversion to the new tools of order - government, police and courts - was not adopted widely. These stateless tribal groups have shown tremendous resilience and continuity as exhibited by the persistence of customary relationships and practices today.

What then is the character of the relationship between the state and the traditional societies of PNG? According to Regan (1998), semi -traditional societies, such as those in PNG, tend to see it (the state) as a body from which resources can be extracted for both individual and group benefit. For many, considering they are involved in subsistence agriculture, there is little opportunity to improve their position financially, except through access to the resources of the state. Most people are rurally based and cut off from the modern economy.[30] Economic advancement is thus usually achieved through the extraction of grants or projects from politicians.

Such an understanding of the state has long historical roots, having its origins in the colonial era in PNG. During that time, the colonial state had assumed full responsibility for the provision of a vast array of services and facilities. It was the colonial state, for instance, that imposed European law and order and administration on the country's tribal societies and first provided access to health and education. Perhaps more significantly, it was largely the colonial state that provided the impetus for economic activity. Public infrastructure, such as transportation networks linking the country,

[30] Papua New Guinea has the smallest proportion of people living in urban areas in the Asia-Pacific rim (Connell 1997:189).

opened the hinterland for exploitation and facilitated the introduction of a cash economy. Through the introduction of cash crops and also employment in the civil service, the means to partake in such an economy were also established. In many ways, thus, the colonial state was very much the master and provider in PNG, creating both the conditions and means that supported the livelihood of many Papua New Guineans.[31]

A variety of strategies were developed by these traditional societies to extract advantages from the state. For example, through Village Councils (later called Local Government Councils) formed in 1951, local representatives acted as intermediaries between villagers and the colonial administration and gained access to finances through collection of local taxes (Waiko 1993:141). Administrative experience was also gained that would prove advantageous in the run up to independence. Although the councils had a small beginning (there were only 4 in 1950), by 1969 this had grown to 109. According to Woolner (1995), the Australian administration's fostering of local political development nurtured within PNG politics the concept of "development" as the distribution of wealth and services by the state. This belief would have been reinforced by the fact that in the decade prior to independence government expenditure grew at rates averaging about 15 per cent of GDP. A good deal of this expenditure was used to establish and promote the cash cropping industry, education, health and basic infrastructure in preparation for self-government (Waiko 1993:161+168).

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[31] For a more detailed analysis of the influence of the Australian administration see Waiko (1993) chapters 4 and 6.

Outside the political sector, traditional societies sought to seek advantage from the colonial state through employment in the colonial administration as officials, police, assistants and so on. By the time of independence the public service already numbered 50,000, and if day-labourers and statutory authorities were added, numbers would have been nearer 70,000 (Turner 1990:136). In the commercial agricultural area, the establishment of a tree-crops industry, particularly coffee, by the state in the 1950s and 1960s further reinforced the widespread perception that the state was the provider.[32] This perception grew even more with the development of the minerals industry in Bougainville that provided jobs and wealth for many.

Following the attainment of independence, the newly formed state inherited this role of provider and underwriter of development. With access to substantial annual untied aid from the Australian government, the new PNG government was seen to have the capacity to provide as the colonial administration once had.[33] The new government lent credibility to this view through policies that benefited local interests. For example, expatriate - held positions in the public service were localised. In three years the number of expatriates was virtually halved (Turner 1990:44). The government also promoted import-substituting industries in areas such as sugar production. Finally, through the introduction of provincial governments, the state and its finances were placed within easier reach of the rural population.

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[32] See quote by Simbu leader in Connell (1997:56).

[33] In 1975 Australian budgetary support contributed over 40 per cent of the PNG budget (Turner 1990:36).

Under the influence of customary relationships and practices, however, these traditional expectations of the new state were transformed into a politics of patronage that came to pervade all levels of government. At the constituency level, for instance, constituents would typically vote for candidates from their own tribal or clan group.[34] In return candidates would usually promise jobs, contracts or money to their supporters. Hence, as under the traditional " big-man" system, votes were cast in the expectation that leaders would go forth to Port Moresby and acquire wealth, which would then be distributed to maintain their power and status in local communities (Waiko 1993:239)[35] - a set of arrangements that Filer (1996) has characterised as the " parochial handout mentality model". As one politician noted, "People demand that you buy them motor vehicles or give them money because they have been your campaign manager or cast their votes in your favour." (Dorney 1990:55)

Customary relationships and practices were also a strong influence at the level of national politics. In order to deliver on promises to supporters, newly elected parliamentarians would focus their energies on extracting the maximum possible advantage out of any prospective government, pledging their support where this was beneficial and withdrawing it when this was no longer the case. Thus, elected members had little real interest in policy development. Instead, their major pre-occupation was the attainment of office, the benefits that could be obtained therefrom and the dispersal of

[34] Griffen, Nelson and Firth (1979) found that in many electorates all the people linked by village residence, clan or language voted for one candidate.

[35] The term "big man" refers to a traditional leader who had achieved his position through personal ability and not through inheritance. One way he exercised influence was through the distribution of wealth (Waiko 1993) . See also Finney (1973) .

these benefits amongst their support base. As Reilly (1996:75) has pointed out, this strong focus on satisfying demands from the local level bred a "collective irresponsibility" at the national level. As was often the case, national goals and priorities were sacrificed in order to appease local interests.

These practices made for a very unstable political stage. Exacerbating this was an extremely weak party system. Most parliamentary democracies are based around strong political parties with a distinct social, political or philosophical basis. To obtain electoral support and thus win power policies that reflect popular needs are developed. These policies establish the framework under which the newly-elected government will operate. They also provide a benchmark against which the opposition can hold the government accountable.

In PNG, however, there was almost a complete absence of effective political parties. This was mainly because of the absence of a social structure that promoted their sustained development. In contrast to other Western parliamentary democracies, there were few social, political or philosophical bases around which parties could be formed. Instead, loyalties, where they lay, remain based around semi-traditional tribal groups (Regan 1998:87). Consequently, political parties have not evolved to the extent that they have in many developed countries. Very few have fully paid-up members outside parliament. Moreover, they lack firm policy commitments and their main role is limited to providing funding to potential candidates during elections (Saffu

1996:17-18). Although prominent parties have developed since independence (eg Pangu and Peoples National Party), the support base of such parties remains centered on tribal allegiances. Reflecting this, they rarely command broad electoral support and have never won sufficient seats to govern in their own right (Turner 1990: 112).

In the absence of any strong party organisation and affiliation, electors have not considered party identification as an important basis of electoral choice. This low premium which electors place on parties explains the large number of independent candidates who eventually win (Saffu 1996:6).[36] Combined with this is the plethora of minor parties that generally arise through defections from the more established parties. Given this melee, government is typically attained through coalition. Usually, the support of independents and minor parties is obtained by the offer of various incentives and powerful political posts, such as ministries, which provide the greatest opportunity for financial advancement (Saffu 1996:33).

Maintaining a coalition is an exceedingly difficult exercise. There are, after all, only 27 ministries. Distributing these amongst coalition partners, while balancing the demands of key individuals or regions, has always been a challenging task confronting Prime Ministers. In an attempt to circumvent these constraints successive Prime Ministers have created new ministries

[36] In the 1997 election, Independents and minor parties made up 46 of the 109 elected representatives (EIU 1998-99:9).

and vice-ministries throughout the 1990s.[37] Potential supporters have also been appointed to the boards of statutory corporations. The jostling and maneuvering for political and pecuniary advantage continues to this very day. At the time of writing, the Prime Minister, Sir Mekere Morauta, (himself in power for only 4 months) is currently embroiled in bids to block passing of the budget because of dissatisfaction from coalition members concerning the distribution of ministries.[38]

As a result of the unstable coalition politics in PNG, no elected government has survived a full term of office (Turner 1990:114). Measures have been introduced in an attempt to improve the situation. Originally, the constitution allowed for votes of no confidence after a government had been in power for only six months. In pursuit of stability, this was amended to eighteen months in 1991(Connell 1997: 277). Even this, however, has not been able to halt the frequent changes of government. To date there have been five governments within a decade.

2.3 Conclusion

This chapter has detailed the socio-political structure of PNG. It has shown that customary practices and expectations have a strong role within politics and society in PNG. This role is legitimised and strengthened through the

[37] This has been graphically illustrated by Prime Minister Skate who appointed 28 ministers, 12 vice-ministers, eight committee chairmen, and 12 other government positions. The result was that only seven of 67 MPs whom Mr Skate claimed supported the government were without government jobs. (EIU 1998a)

[38] The Independent (Oct 28, 1999)

high level of customary land ownership. In this context, the state is considered weak and significant only as a body from which resources can be extracted for group or individual benefit. Clan and tribal loyalties are paramount. These loyalties are evident in the wantok system and the traditional approach to leadership, which are based on clan obligations and the distribution of wealth. These practices and expectations have resulted in a politics of patronage at all levels of government in PNG. In combination with the weak party system - a characteristic of PNG politics - a very unstable political stage has developed, where government is typically by coalition representing varied interests but unified only by some expedient arrangement. With alliances shifting constantly, government at any time is insecure.

Subsequent chapters will now investigate how this socio - political structure thwarted the imposition of reforms by the IMF and World Bank. To begin, the following chapter will focus on the demands around fiscal responsibility.

CHAPTER 3

FISCAL DISCIPLINE

3.0 Introduction

As indicated in Chapter 1, the IMF and World Bank were not wholly successful in enforcing their demands of fiscal responsibility on the PNG government. Despite their efforts, PNG governments ran expansionary budgets, decreased tax revenue and failed to meet deficit targets laid down by the IMF. This was a serious affront to the Fund. Fiscal responsibility had always been a top priority for the IMF. It saw fiscal policy mismanagement as the key source of balance of payments problems and considered this a leading factor in the misallocation of resources within the economy (Killick 1995:142). With special reference to Papua New Guinea, the IMF was concerned that governments had run persistent budget deficits which contributed greatly to both the 1990 and 1994 crises. In its opinion, overspending on, in particular, the public sector, social programmes such as education and price support schemes, together with inefficient tax structures, had all contributed to difficulties in managing budgets (IMF 1998:12).

Fiscal responsibility was to be achieved mainly through cuts in government expenditure with a deficit limit of 1 per cent of GDP set. To stay within this limit, the public sector was to be reduced, stricter controls placed on spending by national departments, a wage freeze introduced and the commodity price stabilisation scheme reformed (Muwali 1997:19). The PNG government, however, strongly resisted the imposition of this threshold. Amidst constant protest, continued high levels of expenditure occurred throughout the nineties despite the presence of a World Bank advisory group to assist in the preparation of budgets. The reasons behind such overspending, of course, are many and varied. As this chapter will suggest, however, the socio-political structure of PNG and, in particular, customary practices and expectations, were a highly influential factor.

To begin, Section 2.1 will first briefly review orthodox stabilisation theory and detail the IMF position on fiscal responsibility that stems from this. Section 2.2 will then explore how customary practices in PNG influenced the pursuit of this objective. As it will be suggested, these practices were a highly significant force undermining IMF dictates on fiscal responsibility. Traditional practices of the distribution of largesse by the "big man", together with the large amount of discretionary finance granted to politicians, made the enforcement of discipline difficult despite IMF and World Bank budgetary supervision.

Section 3.1 Orthodox Stabilisation Theory

Countries such as PNG only apply to the IMF for financial assistance when their economy is in crisis. In these situations they typically have large budget and current account deficits and are unable to borrow from any commercial bank. In return for the loan, the IMF imposes a stabilisation programme that usually aims to reduce demand and the external current account deficit. An integral part of this programme is a tightening up of government spending through budget deficit targets and the exercise of greater fiscal responsibility (Chossudovsky 1997:55).

These adjustment programmes are largely informed by traditional stabilisation theory. Within this framework, the focus falls on three major problems typically associated with a macroeconomic crisis: an expanding trade deficit, escalating inflation, and finally, a widening fiscal deficit.

The emergence of a trade deficit is usually the first sign of a developing crisis. These deficits can only persist if they are covered by reserves or borrowing. Developing countries are more susceptible than industrial countries to such problems because of the instability of export earnings and unfavourable commodity terms of trade. This was precisely what happened in Papua New Guinea in the early 1990s. Due to the closure of the Bougainville Copper mine and a dramatic drop in the price of agricultural commodities,[39] there was a 15 per cent deterioration in the terms of trade. Following this, it was estimated the trade deficit expanded to 10.5% of GDP (Stein 1992:25).

To correct such a deficit, the IMF typically recommends a devaluation of the currency. Devaluation works in two ways. Firstly, a devaluation makes exports more price competitive and there is consequently an increase in

[39] This was caused by large falls in the prices of coffee (30 per cent), copra (8 per cent), cocoa (23 per cent) and palm oil (11 per cent). (Stein 1992:25)

export income as export volumes rise. Secondly, the drag of imports on the trade balance is reduced as the price of imports is increased, thereby making them less attractive. Acting together, these processes bring the trade balance into line.

The second problem the stabilisation programme attempts to address is that of inflation. Developing countries have been identified as being particularly susceptible to high rates of inflation (Krueger 1995). In PNG, this rose considerably as the crisis intensified, from 4.5 per cent in 1989, to 7 percent in 1990, before reaching a peak of 15 per cent in 1995 (Stein 1992:27, Manning 1998:20). According to the IMF, high rates of inflation are primarily due to a rapid growth in the money supply. Hence, to combat inflation, it usually advocates much stricter control over this. To ensure this, any IMF assistance is made strictly conditional on a severe tightening of credit by the central bank. Through, for example, raising required reserve ratios, any further growth in credit is halted, and inflation eventually curbed.

The last problem stabilisation theory attempts to address relates to the fiscal deficit. In PNG, this was a highly significant problem. As the crisis intensified during the early nineties, these deficits mounted, prompting concerns over the stability of the government and economy. Anticipating the worst, unprecedented levels of capital flight ensued, precipitating a major balance of payments crisis (Shand and Stewart 1998:58). As far as the IMF was concerned, such fiscal deficits were the product of excessive government expenditure. Consequently, to control these, it insists governments curtail expenditure by decreasing spending on items such as subsidies, public employment and infrastructure (Bienen and Gersovitz 1985 :736).

It should be noted that the policy recommendations of the IMF outlined above are designed to work in a complementary fashion. Theoretically, any recessionary effects following from reduced fiscal deficits and a tighter monetary policy tend to be offset by the positive impact of devaluation on the trade balance. In this manner, departures from equilibrium are rectified by the package as whole.[40]

Despite the complementary nature of these policies, the IMF has traditionally assigned foremost priority to reducing the fiscal deficit (Sachs 1989). This is mainly because deficit reduction is seen as critical to restoring international confidence in the economy, reducing inflationary pressures, removing distortionary tax systems and limiting the crowding out of private investment by public investment (Killick 1995, Streeten 1987). The World Bank had a similarly strong emphasis, noting in a 1991 report that the elimination of large fiscal deficits was fundamental to successful reform efforts. The presence of large deficits created expectations of inflation, exchange rate devaluations and further government borrowing which would all contribute to

[40] Evaluations and critiques of this orthodox approach are wide and varied.This thesis, however, proposes to steer clear of this debate.For present purposes, it should suffice to note that there is by no means wide agreement that the orthodox approach is the only nor most effective way to deal with crises. Grave doubts have also been raised regarding the social, political, economic and environmental costs of such policies. It should also be pointed out that most recently, particularly following the Asian financial crisis, the IMF itself has had to re-assess its position, in many instances, modifying or adding important qualifications to standard policy recommendations. See eg. Dell (1983), Helleiner (1992), Manzetti(1991), Taylor (1988), Sachs(1998), Hale (1998), Godement (1999).

an increase in real interest rates and the risk of financial crisis (World Bank 1991:116). To the Bank these factors inhibited the ability of governments in developing countries to provide basic services and promote economic growth (World Bank 1995:21).

With specific reference to PNG, there were other compelling reasons for this strong focus on fiscal discipline. In the IMF's view, PNG governments had an unenviable track record of excessive spending during the 1990s. Spending on, for example, the public sector and health, education, housing and social security, combined with tax structures that misdirected revenue had, according to the IMF, contributed to difficulties in managing budgets and therefore having to resort to deficit financing. Given this, curtailing expenditure and reigning in the budget deficit was of paramount importance to the overall success of the stabilisation programme in that country (IMF 1998:13).

As indicated in Chapter 1, however, the IMF did not enjoy a great deal of success in these efforts. PNG governments ran expansionary budgets, decreased taxation, failed to meet deficit targets, and made no progress in reducing the size of the public sector . As the following section will suggest, a key factor behind the failure to achieve any change is to be found in the socio-political structure of PNG. The influence of customary practices and expectations, in particular, were especially significant, and a key factor behind the lack of any progress in this area.

3.2 Customary Practices and Fiscal Responsibility

In Chapter 2, it was shown that in PNG traditional modes of social organisation such as the *wantok* system remain extremely strong, bonding clan members together in a web of reciprocal exchange. These traditional ties help clan members through difficult times when those without food, work or shelter can expect assistance from others within the same clan . As McGavin (1991) notes, many households without wage or salary workers in towns such as Port Moresby and Madang were dependent on gifts and transfers from *wantoks*. At a wider level, these traditional obligations are manifest in the political system where local parliamentary representatives reward their clan supporters with jobs, contracts and money. In times of crisis, these representatives can also expect to be called upon for help.

In many respects, the Bougainville crisis in 1989 and the imposition of the first SAP in 1990 signaled that the formal economy in PNG was in crisis. Unemployment increased as Bougainville employees were displaced and the financial effect of the mines closure flowed on to other sectors within the economy.[41] Between 1988 and 1991, the number employed in the mining industry contracted by more than 40 per cent, while total employment in the formal sector contracted by about 7 per cent (AIDAB 1993:74). Together with this, the agricultural sector, which was the principal source of livelihood for over 80 % of the population, was sliding into a slump as prices for the major

[41] The Bougainville mine provided 3500 jobs for local people as well as training 10,000 tradesmen during its lifetime (Dorney 1998:40).

export crops had been falling since the mid 1980s (Connell 1997:91).[42] This caused a decline in agricultural employment. Plantations, for example, reduced their workforce by 20 per cent (AIDAB 1993:95) during this period, thereby contributing to a marked increase in unemployment nationwide and a sharp drop in household incomes.

Given this crisis in the formal economy, many local communities were forced to fall back on such traditional arrangements as the *wantok* system to survive (Gibson *et al* 1998:40). Making use of the extensive system of patronage politics, moreover, many held the expectation that the state's resources could be accessed to help them in this time of need . For their part, many elected representatives probably shared such sentiments, placing their sense of traditional obligation and loyalty towards the clan support base above any commitment to an outside agency such as the IMF (Monsell-Davis 1993:13). Picayune and Rooney (1996) record, for instance, that at least one politician had " allocated funds from the Electoral Development Fund (EDF) to many groups and individuals and supported and stood by families who suffered misfortune" during this time of crisis. The notion of fiscal responsibility that was practiced was thus totally different to that advocated by IFIs, as politicians felt it their responsibility to redirect government resources to local groups, as dictated by custom.

At a broad level, an obvious example of this was the 1992 budget. Through the budget, the government provided free education for primary students,

[42] Coffee, which is the most important export cash crop, is grown by an estimated 246,000 farm families, representing more than 40% of the people of PNG (AIDAB 1993:95)

increased funding in health, woman and youth affairs, lower personal tax rates and guaranteed prices for cash crops (Chan 1992:8-9). In effect, the budget sought to redistribute the nation's resources to rural people who provided the support base for the majority of politicians and who were now most affected by the crisis. Any pretence at fiscal responsibility was now abandoned as government departments ignored IFI conditions (EIU 1997b:11).

At a more specific level, however customary practices and expectations were also a significant factor behind the subversion of a number of particular demands issued by the IMF and World Bank. A number of examples may be drawn on to illustrate this point. Two, however, are particularly noteworthy and will be focused on in the discussion to follow: the commodity price stabilisation scheme and Electoral Development Fund.

The Commodity Price Stabilisation Scheme

Price support for tree crops had been a feature of agricultural life in PNG since the 1940s (Gumoi 1993:5). The IMF, World Bank and ADB pinpointed the scheme for reform in 1990 because of the drain funding was placing on government revenue (World Bank 1995:104). Furthermore, the IFIs believed the scheme distorted incentives to innovate and expand and contributed to reduced investments in agriculture (AIDAB 1990:12). Finally, it was held that high subsidised prices tied up land and other resources in the production of crops that may have poor prospects in the future, such as copra (AIDAB

1993:18) Accordingly, the government agreed to phase out loans to the stabilisation funds in 1990 (Stein 1992:28).

Between 1992 - 1994, however, while under the tutelage of the IMF and the World Bank, the government made little attempt to phase out price supports. Indeed, funding for the scheme was increased as the trigger price (the price at which the subsidy would be paid) was set at deliberately low levels. The government, moreover made a commitment to maintain such support for a five year period (Chan 1992:8). Between 1990-1994, the scheme cost the government K250 million (ADB 1997:4), while in 1993 alone the government spent 2 per cent of GDP on the scheme (IMF 1998:8).

Partly in response to this, a condition of the 1994 loan from the IFIs required, a comprehensive reform of the scheme, phasing out government price support and requiring commodity industry corporations, such as the Coffee Industry Corporation, to assume responsibility for any price support (World Bank 1995:104). Despite this, however, the scheme continued to operate, and as the IMF noted in a 1998 report, "no concrete steps towards reform had been taken" (IMF 1998:8).

The reluctance to reform the scheme was due to a variety of factors. In the main, however, it was largely because the scheme provided the government with an ideal opportunity to fulfill traditional obligations and disperse resources to the rural populace. Accountability and transparency were notoriously difficult to maintain in the scheme (Temu 1995:10). As the World

Bank pointed out, under such circumstances, money invariably was handed out in a questionable manner, benefiting particular individuals or groups (World Bank 1995:29). Typically channeled through tribal elders, resources were being funneled under the scheme from the government to rural areas at this time of economic crisis, directly contravening IMF/World Bank demands for "discipline".

The Electoral Development Fund

The EDF was first established in the late 1970s (Connell 1997:278). At its inception, the rationale for the fund was sound. As MPs were best placed to identify good local infrastructural projects, the fund could be used to directly support such projects, thereby circumventing any departmental bureaucracy. Although some politicians used the fund in this way, many saw the fund as providing them with the finances necessary to fulfill "exchange" obligations and reward clan and electoral support (Reilly 1996:68). As one politician noted, " People demand you buy them motor vehicles or give them money because they have been your campaign manager or cast their votes in your favour" (Turner 1990:55). The EDF was one way such demands could be met.

In 1984, the government allocated all MPs an annual budget of K20,000. By 1990, this had increased to K100,000, rising further by 1994 to K300,000 per member per year, supplemented by individual allocations from the Minor Roads Fund of K200,000 per year (ANUTECH 1995:25). The World Bank was extremely critical of these political expenditures and noted that the EDF, along with the commodity price stabilisation scheme, really had "no fiscal justification" (World Bank 1995:29). Consequently pressure was brought on the government to remove the EDF as part of the 1994 SAP. Although the EDF was discontinued in 1997, this proved to be only a temporary measure. It re-emerged in 1998, with funding at the higher level of K500,000 (EIU 1998b:14).[43] Even this, however, was exceeded in 1999. Despite being in negotiations for further loans from the IMF and World Bank, this figure was raised threefold, to K1.5 million, for each of the 89 MPs in "open" electorates (EIU 1999:17) .[44]

It is difficult to ascertain precisely how such funds were spent. Under the Public Finances (Management) Act, MPs must account for how they disbursed funds from their EDF. In practice, however, this requirement was rarely met.[45] Monitoring was made even more difficult as the allocated funds were deposited directly into an MP's personal account (Connell 1997:278). As cash payments were allowed under the scheme, it is virtually impossible to establish an audit trail.

Despite the lack of hard evidence, it is reasonable to assume substantial amounts were distributed from EDFs to clan members. As Standish (1996:299) has pointed out, MPs rarely used EDFs for specific projects,

[43] In the same budget a K5 million retirement fund for MPs was introduced.

[44] These are the MPs elected in the open constituencies as distinct from those that are elected as a member for each of the provinces.

[45] In 1994 a report prepared by the auditor general observed that over half of the 109 MPs failed to account for how they disbursed their EDFs (EIU 1997b:13).

choosing to allocate funds instead to their clan group or family members. Politicians themselves, moreover, have admitted the pressure of responsibility forced them into the misuse of such funds (Monsell-Davis 1993:13). It is highly likely, therefore, that the EDF was used to fulfil customary expectations at this time of crisis, channeling resources from the central government to *wantoks* and clan members in need.

3.3 Conclusion

This chapter has outlined the broad contours of the IMF's approach to economic stabilisation and highlighted the importance of fiscal responsibility within this, both generally as well as with specific reference to PNG. The IMF, however, was unable to successfully enforce its demands on fiscal responsibility in PNG. At this juncture the formal economy was in crisis, and customary practices and obligations were invoked to cushion the effects of crisis and thus ensure survival. Operating through an extensive system of patronage politics as well less visible informal networks and "understandings", public resources were channeled to supporters and tribal kin in need. Reflecting these processes, IMF demands for a reduction in government expenditure were ignored - expenditure actually increasing for much of the nineties. Further, specific initiatives targeted by the IMF, such as the commodity price stabilisation scheme and the EDF, were persisted with despite the evident disapproval of the Fund.

The influence of customary practices and obligations was not confined only to the area of fiscal responsibility. As the following chapter will show, it also assumed a very significant role in public sector reform, again thwarting the IMF and World Bank in a number of critical areas.

CHAPTER 4

Public Sector Reform

4.0 Introduction

The previous chapter showed how the unique socio-political structure of PNG worked against IMF and World Bank demands on fiscal discipline. This chapter moves on to demonstrate how the same structure impeded the pursuit of public sector reform. As it was shown in Chapter 1, this was a key aspect of the reform package demanded by the IFIs, with reforms in this area centering on downsizing the public service and decentralising government control. Despite the efforts of the IFIs, however, these reforms were not wholly successful as evidenced by the increase in numbers employed in the public service and the retention of political and financial control by central government, despite the introduction of legislation aimed at decentralisation.

To begin, Section 4.1 will first explore the economic philosophy behind the IMF/World Bank position on public sector reform. As it will be suggested, public choice theory and monetarist beliefs form the cornerstone of the IFI position, promoting an anti-statist approach that works against the size and involvement of government in the economy. Section 4.2 will then move on to examine the structure of the PNG public sector, focusing on key factors that

IFIs found particularly objectionable, such as its size and highly centralised nature. Section 4.3 will then detail the reforms that were demanded to address these - namely retrenchment and a decentralisation of government authority. Finally , Section 4.4 will show how the socio - political structure impeded IMF/World Bank demands of public sector reform.

4.1 The IMF/World Bank position on public sector reform

After World War II, many developing countries had concentrated on state led development. This was due to a variety of factors. As the World Bank itself noted, however, this was largely the product of a weak private sector and centralist tendencies already initiated by previous colonial masters (World Bank 1997:23). Reinforcing this state-led approach was the dominant economic philosophy of the post war period - Keynesianism - which emphasised a strong government role in the economy through demand management. Together, these tendencies combined to generate an expansion of the public sector in many developing nations (Ingham 1995:197).

Even at this early stage, public sector reform was a key issue for the IFIs (Marshall *et al* 1985). Their concerns were of a rather benign nature, focusing on improving public sector economic programmes (Milobsky and Galambos 1995). From the 1980s on, however, when many developing countries came under heavy debt pressure, public sector reform was elevated into an absolute necessity. Coinciding with a swing in economic countries came under heavy debt pressure, public sector reform was elevated into an absolute necessity. Coinciding with a swing in economic thinking towards monetarism and public choice theory, such reform, however, was qualitatively different. Couched in the language of neo-liberalism, it emphasised the superiority of market forces, privatisation, and the reduction of government involvement in all areas of the economy. This, it was believed, was essential to curb problems associated with political interference within the public sector as well as the negative effects it exercised on economic efficiency and performance (Randall and Theobald:1998:154).

According to public choice theory, the expansion of government functions in many LDCs was driven by politicians and bureaucrats seeking to advance their own interests and not necessarily those of the country or the organisation they worked for. To be elected, politicians promised new governmental expenditures, and to remain in office, they had to deliver on these promises. Bureaucrats, by the same token, sought to maximise their own position within the government by increasing their influence and salary. Individual voters and consumers were powerless against such politicians and bureaucrats as the machinery of government was normally situated in the capital or major cities, making access difficult. The repercussions of such actions, according to public choice theory, were a burgeoning inefficient government sector that rewarded those who were employed within it, rather than those it was created to serve (Feigenbaum 1999:22). For IFIs, this was a powerful argument for a reduction in bureaucracies and government involvement in the economy and the decentralisation of remaining government functions.

Monetarist beliefs further reinforced this conviction that a drastic reform of government activity was required. According to such beliefs, expenditure on the public sector was seen as a contributing cause of continued fiscal deficits and a drain on finances that could be spent in other areas of the economy. Such expenditure moreover, was regarded as a contributing factor to inflation and unemployment. Hence, yet further arguments were adduced for a drastic revision of a government's role. Government was to be downsized, decentralised and its functions privatised.

This broad agenda of the IFIs was vigorously pursued in countries from Africa to the South Pacific. In Africa, for example, Nunberg (1994) noted that twenty-five African countries had one or more structural adjustment credits dedicated to public sector employment practices and the downsizing of the public sector.[46] In one country, Guinea, 30% of civil servants were retrenched between 1985 and 1989 (Sahn et al. 1997:163). In the Cook Islands, as many as 60 per cent were retrenched in 1997 alone (Mellor 1997:20).

To sum up: guided by neo-liberal thinking, the IMF and World Bank have placed public sector reform at the top of their structural adjustment

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[46] Cited in Sahn *et al* (1997:163)

programmes since the 1980s. These reforms have centered around public service retrenchment, the decentralisation of government authority and the privatisation of government services. The reforms that were demanded of PNG in the nineties were, in this respect, unremarkable, adhering to the key tenets of IMF and World Bank thinking. Before examining these in greater detail however, it may be apt to first explore the nature of the public sector in PNG. This is the task of the following section.

4. 2. The Public Sector In Papua New Guinea

The government in PNG is large relative to governments in similar countries. Measured in terms of the share of government expenditure in GDP, in 1991, this stood at 36 per cent, compared to 28 per cent in Fiji, 20 per cent in the Philippines and just 19 per cent in Indonesia (Economic Insights 1996:48).

The public sector comprises three main parts: the central government, the provincial government and local councils. The central government consists of the national government and the bureaucracy that surrounds the administration of government services such as health, education, police, defence, foreign relations and trade. The provincial government system was implemented at independence in 1975 to appease the threat of secession by

Bougainville and promote greater decentralisation of power.[47] The country was divided into 19 provinces each with its own elected government responsible for the delivery of key education, health, and business development as well as agricultural services. Consequently there is another level of bureaucracy that although given limited power, often duplicates central government activities (World Bank 1995). These provincial governments receive most of their resources in the form of grants or other allocations of funds from central government. Finally, local governments, and the more recently introduced community governments, also consist of elected participants and are responsible for planning local development and organising community projects (Ghai and Regan 1992:119). They too are highly reliant on provincial governments for funding. In 1998 there were 264 local and community governments throughout PNG (Waiko 1993:229).

In addition to this basic structure, there are a number of statutory authorities, providing services in harbour management, broadcasting, insurance, banking, superannuation and utilities. This overall structure was modeled almost entirely on the administrative system of Australia. The same levels for classifying administrative staff were used and initially the same departmental structures and administrative systems were also employed. The early administration relied heavily on expatriates, a reliance which still exists particularly at central government level (Economic Insights 1994).

[47] A Bougainville Independence movement with significant popular support fearful that revenues from the copper mine would be be captured by central government declared independence fifteen days before Papua New Guinea was granted independence in September 1975. Only after a year of negotiations would they agree to a union with PNG on the guarantee of provincial government (Dorney 1998:39)

Given its highly complex nature, the public sector in PNG was of considerable size. This was evident in two respects. Firstly, and as clearly pointed out above, the share of government spending in GDP was large relative to other developing countries. Secondly, the public sector was a highly significant employer. At the beginning of the reforms in 1990, the public service employed 60,000 people. This constituted more than 25% of those in formal employment in PNG, making the public service the country's major employer (IMF 1998 :11).

Apart from its size, the public sector was also notable for its inefficiencies and malpractices. A lack of productivity was a constant criticism (Turner 1990:135). There was also very little accountability, performance assessment or strategic planning (Larmour 1995:41). At a broad level, it was widely believed the bureaucracy was inefficient, complacent, wasteful and corrupt. Mismanagement, neglect, envy and rivalry between departments and political interference were evident (Axline 1993), probably confirming the worst fears of public-choice theorists.

Finally, it should also be pointed out that though, on the surface, the machinery of government appeared to be highly decentralised, in reality, power and authority rested firmly with the central government alone. This was achieved, firstly, through the delegation of relatively few responsibilities to provincial government. Apart from such areas as liquor licensing, local government and education, central government retained authority over all

(Connell 1997:293). By maintaining ultimate authority, the central government was able to undermine the efficiency of their provincial opponents and thus justify the return to itself, of functions carried out by provincial governments (Ghai and Regan 1992:192).

In summary, the public sector in PNG was both highly centralised and overmanned. Despite a workforce numbering 60,000, it was inefficient, cumbersome and lacking in accountability. The highly centralised nature of government, moreover, retained authority and financial power within the capital and gave provincial and local authorities few responsibilities and fewer resources to deliver basic services. These were features of the PNG public sector that the IMF and World Bank would focus on and seek to address through reforms imposed during the nineties.

4.3. Required reforms

The reforms initiated by the IMF and the World Bank centered on three broad objectives:

- reducing the number employed in the public service
- decentralising resources and tasks from the capital to the provinces and districts in order to improve access and service delivery (World Bank 1995 : 8 -27)

objectives:

- reducing the number employed in the public service
- decentralising resources and tasks from the capital to the provinces and districts in order to improve access and service delivery (World Bank 1995 : 8 -27)
- privatisation of government enterprises[48]

Since the first structural adjustment programme in 1990, retrenchment of 3 per cent of the public service had been a major priority because of the pressure that the wage bill was exerting on expenditure (Stein 1992:26). Public service wages that year had accounted for 50 per cent of total departmental expenditure and 21 per cent of total government expenditure (World Bank 1995 :154). Under the second SAP in 1994, the retrenchment of civil servants was again a major condition. This time, the aim was to retrench 7.5 per cent of the public service (Kavanamur 1998:114). The World Bank saw a reduction in the public service as an important factor in reducing current expenditure. In PNG, current expenditures, of which the largest component was staff costs, far exceeded capital expenditures. As a result, there were insufficient funds to maintain infrastructure and improve basic services such as education (World Bank 1995:37-39).

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[48] The IMF and World Bank, however, did not attribute the same emphasis to this aspect of public sector reform. In the 1990 SAP, for example, IFI demands were directed toward an agreement in principle about privatisation, rather than specific directions. Stein (1992) suggests this may have been because there were institutional constraints, such as the lack of a stock market, that limited the privatisation process. For this reason an analysis of privatisation will not form part of the scope of this thesis.

The second key demand, that of decentralisation, sought to transfer authority outwards and downwards from the central government, and thus improve efficiency and service delivery. As the World Bank pointed out, the central government had not been providing sufficient funding to the provinces to allow the development of infrastructure and improved access to basic services such as education and health (World Bank 1995:7). Indeed, financial transfers to the provinces had been steadily declining, with the share of the budget allocated to provincial governments falling from 32 per cent in 1983 to 18 per cent in 1994 with disastrous implications for service delivery. A decentralisation of resources and tasks, it was believed, could help reverse this. As more decision-making and responsibility would lie at local level, it was expected efficiencies would be gained and departments made more responsive to local needs (World Bank 1995:8).

In the area of health, for example, service delivery was hindered by the institutional constraints within the capital. Here, the National Department of Health, the Department of Finance and Planning and the Department of Personnel and Management had the greatest control over the allocation of funding and personnel in the health sector. Under decentralisation, Provincial Health Boards would be responsible for the allocation and distribution of the overall health budget. They would be responsible for such tasks as hospitals, the purchase and distribution of pharmaceuticals and medical equipment as well as the recruitment of personnel (World Bank 1995: 68-71). In essence, local authorities would gain resources that were

- 1998, while the central government continued to maintain a position of authority over the allocation of resources. As the following section will suggest, a major factor behind this lack of success was the socio-political structure of PNG.

4.4. The Socio-Political Structure of PNG and Public Sector Retrenchment and Decentralisation

As Chapter 2 pointed out, customary practices and expectations play a crucial role within the socio-political structure of PNG. These practices and expectations are evident in the wantok system and the traditional approach to leadership and land tenure. These practices and expectations have manifest themselves in a politics of patronage where clan and tribal loyalties are paramount. In return for votes, elected representatives deliver the benefits of office to their *wantoks* and supporters in the form of jobs, contracts and money. The traditional role of leadership, where the "big man" distributes wealth, legitimises this process. These practices and expectations were an important force behind the failure of IMF and World Bank efforts in retrenchment and decentralisation. As one commentator noted, "There is little evidence of political momentum to implement the most recently announced public service reforms" (McGavin, 1997:90).

Focusing firstly on retrenchment, it is important to note that, historically, the public service was one area of employment where such customary practices were most prevalent. Kinship networks and the *wantok* system quickly retrenchment and decentralisation. As one commentator noted, "There is little evidence of political momentum to implement the most recently announced public service reforms" (McGavin, 1997:90).

Focusing firstly on retrenchment, it is important to note that, historically, the public service was one area of employment where such customary practices were most prevalent. Kinship networks and the *wantok* system quickly became embedded within the service whereby promotion and recruitment of clan members became the norm (Economic Insights 1994). With the onset of economic crisis in the formal and agricultural economy in 1990, and again in 1994, unemployment levels increased significantly (AIDAB 1993:74). As patronage had became a normal and anticipated process in the service, traditional obligations were now called upon in these times of crisis. The civil service became the last refuge for many affected kin and clansmen. Consequently, there was an increase in public sector employment rather than any retrenchment.

These jobs were provided through a variety of mechanisms. At a broad level, the government's expansionary policies at this juncture were highly significant, establishing a platform upon which the needy could be helped. Apart from this, the patronage system also assumed a prominent role, as politicians and existing employees sought to "create" positions for their *wantoks* within the public service.[49] This process was assisted by the dispersal of responsibility for hiring throughout the many government

[49] As the EIU (1998c: 8) noted in a report: "The government is a principal employer and MPs are accustomed to delivering jobs and patronage to their supporters".

departments. The IMF referred to this as "weak centralised hiring controls" (IMF 1998:17). This weak centralised control obviously made it difficult for government to keep track of employment and enabled individuals within government to pad project payrolls with friends and relatives (Connell 1997:280). This must have been a major factor behind the inability to curb numbers, and indeed, the expansion of the civil service. In response to *wantok* demands, and under pressure to fulfill clan obligations, political and bureaucratic actors were employing supporters and *wantoks* in these difficult times, thereby negating any retrenchment exercise.

Turning next to decentralisation, aspects of the socio-political structure again undermined IMF and World Bank aims. Here, customary practices manifested themselves in a struggle between national and provincial politicians. This struggle to be the major distributors of public money was inherent in PNG politics and was based on traditional leadership practices of the "big man" distributing wealth. It resulted in national politicians manipulating legislation so that provincial rivals were weakened.

The structure of government in PNG with its provincial and national governments had bred a resistance to decentralisation. From the outset in 1977, national parliamentarians viewed their provincial counterparts with suspicion (Axline 1993:38). Although the national parliamentarians couched their personal arguments in terms of expense, effectiveness and efficiency, their main reasons were political (Turner 1990:127). Provincial governments challenged the power of national MPs and also opened a new power and patronage base for both local politicians and bureaucrats. By the 1990s, there were over 550 provincial politicians, and a substantial provincial government staff who were positioned closer to the grassroots (Connell 1997: 294). Many national representatives believed that their support and power was being eroded and consequently worked openly to destablise the decentralisation process.

This was well illustrated in the subversion of provincial governments by central government. To this end, central government pursued a range of policies that would weaken provincial influence. They brought provincial governments under stricter control, by, for example, suspending governments.[50] National parliamentarians meanwhile, were given privileged access to funding specifically for their electorate through the Electoral Development Fund.[51] By contrast, to inhibit the power of provincial governments, central funding was often restricted and in many cases inadequate. Regan (1995) found that the Minimum Unconditional Grant (MUG), the funding from central to provincial government, was disproportionate to the increased level of responsibilities and demand for government services. While the MUG had remained constant over the years there had been increased demand for services (eg. in education). Provincial government, thus, struggled to provide basic services adequately and consequently drew the wrath of local citizens and national politicians.

[50] In 1992 alone four provincial governments were suspended-Southern Highlands,Milne Bay, Morobe and Western (Connell 1997:294).

[51] A forerunner to this, the " sectoral programme fund" set up in the early 1980s, was designed to restore the image of national parliamentarians as the "bringer of goods and services " to local people(Dorney 1990:224).

Apart from the efforts at subversion, the national government had also threatened at times to hold a referendum on provincial government or to completely overhaul it. These threats were finally carried out in 1995 when the national government introduced the Organic Law on Provincial and Local-Level Governments (OLPGLLG). On the surface, the law was to improve the decentralisation process. In practice, however, it worked to circumvent World Bank aims. Instead of improving, the process of decentralisation by placing greater emphasis on local-level government, it returned power firmly into the hands of the central government and its national representatives.

This was achieved, firstly, through the abolition of elected provincial governments. These were replaced with appointed provincial assemblies consisting of local (community) government leaders, MPs from the province, one of whom would be Governor, and other appointed officials. Thus the significance of provincial governments was reduced, and although the reform potentially returned power and funds to the grassroots, it also strengthened the power of the national government (Connell 1997:295). National politicians no longer had to compete with other elected officials. They would, moreover, be able to influence the appointment of provincial officials and control developments at that level.

The national government also kept control of crucial appointments concerning funding. The overall control of the outlays at provincial level lay with the provincial treasurer and Secretary of Finance, both political appointments (Gupta and Ivarature 1997:279). Hence, although greater financial resources were to be contributed to local level government, the overall control of these funds would still be within the influence of the national government. National politicians would continue to be seen as the major distributors of largesse. Reflecting this, a 1996 AusAID report pointed out that despite the reforms, " spending decisions at the lower level of government could again be dominated by the political process." (Economic Insights 1996:57)

Thus, although a key piece of legislation designed to promote decentralisation was passed, effective financial and political power was retained by the central government. Indeed, through the Law, the central government had managed to undermine the power and authority of provincial governments - an outcome totally contrary to the spirit of World Bank reforms.

4.5 Conclusion

Public sector reform was a key demand of IFIs in PNG during the nineties. These reforms, however, were by no means successful. The retrenchment of civil servants, for instance, never really eventuated as public service employment numbers increased markedly, while efforts at decentralisation were circumvented by national politicians . As this chapter has suggested, retrenchment was thwarted by the extensive kinship networks and *wantok* system that permeated the public sector. Decentralisation, meanwhile, was a casualty of traditional leadership practices and most particularly, the struggle between national and provincial politicians to be the principal distributors of public money. As a result of this struggle, legislation was manipulated to negate any movement towards decentralisation.

In the following chapter, attention will be focused on the final key element of IFI demands in PNG - land reform. As it will be suggested, the socio - political structure of that country again exercised a strong influence over the fate of these reforms, causing their eventual abandonment.

CHAPTER 5

LAND REFORM

5.0 Introduction

The preceding chapters illustrated how socio-political factors worked against the IMF and the World Bank imposing their agenda of fiscal discipline and public sector reform. This chapter will show how the social factors behind the customary land tenure system impeded the efforts of the World Bank in promoting land reform.

Land reforms are largely concerned with changing the prevailing pattern of ownership, usage and control of land. The World Bank and IMF have encouraged land reform in many countries over the last 30 years on equity and efficiency grounds. More recently many countries within Latin America, Africa and Asia were required to adopt some type of reform as part of the structural adjustment conditions of the Bank. Countries such as Chile, Peru and Indonesia have altered land entitlement systems because IFIs felt that existing ones failed to create the necessary efficiency in agriculture (Hojman 1993 and Hamann 1991). For countries such as PNG, where large parts of land are held under customary tenure, the IFIs have promoted the establishment of land markets within the general framework of market-orientated development. This chapter will show, however, that Papua New

Guineans were not prepared to surrender the traditional clan structure of land holdings and viewed the World Bank-sponsored Land Mobilisation Act of 1995 as an effort to dispossess them of their traditional lands. Such opposition, in turn, led to the eventual cancellation of the World Bank programme in 1995.

To begin, Section 5.1 will look at World Bank thinking on land reform. Section 5.2 will then explore the World Bank demands for land reform in PNG, and most particularly, the demands for the registration of customary land. Finally, Section 5.3 will examine the customary land tenure system of Papua New Guinea and show why there was resistance to any reform.

5.1 The Need For Land Reform and the World Bank's Position

Before 1975, the World Bank took little active interest in land reform. In the field of agricultural development, the focus was on projects such as irrigation, tree crop plantations, credit programmes and land settlement schemes (Platteau 1992:7). As a rule, land tenure issues were overlooked by the World Bank because it was considered too political (Falloux,1987). The view of the Bank was that the distribution of land was a matter of national politics.

The 1970s saw a shift in this position as the bank became concerned with the equity issues involved in land ownership. As one Bank report noted, "Land reform is, in practice, predominantly a question of equity and therefore, one that is often highly political. Nevertheless, it has significant implications for economic development, and these in turn are relevant concerns in the formulation of the World Bank's policy." (Platteau 1992:9). In this context, the Bank thought it could best fulfill these aims by assisting governments in the mechanics of land reform, eg. drafting legislation, land surveys and the registration of land titles (Platteau 1992).

Much of this new approach was influenced by the development experience of countries in Latin America and Asia. In these countries, large landholdings, tenant farming and inegalitarian patterns of land ownership were major sources of income inequality (Riad El-Ghinemy 1990) .The Bank believed that land should be redistributed to those working it as this would lead to greater increases in productivity. In Chile, for example, land reform was undertaken as part of the SAP because extreme concentration of property in "Latifundia" was seen as one of the principal factors impeding agriculture. In 1978, a land market was created and expropriated land was redistributed (Martinez and Diaz 1996)[52] .

Under the impact of the revolution in economic thinking, the Bank's perspective changed again in the 1980s (Platteau 1992:14). While a commitment to land reform was still maintained, this was justified on an economic rationalist basis as something that would promote greater efficiency. The traditional concern with equity in land reform was abandoned.

[52] A total of 10 million hectares was redistributed: 30 per cent to the original owners and 30 per cent to new owners.

The key objective of land reform now became the creation of property markets, where land and structures were traded at prices set through competitive markets. This, it was believed, would improve the efficiency with which a key input of production - land - was used and promote the process of development.

The new emphasis on market mechanisms and property rights brought into question the issue of land tenure. For the Bank, secure property rights were essential for efficient, market-based capitalist development. The central task for the state, indeed, was the creation and maintenance of such rights. This was clearly laid out in the Bank's report, *The Challenge of Development* , which provided the framework for this market-orientated approach to economic development. It maintained, among other things, that Government may aid development by "securing land-tenure arrangements." (World Bank 1991:73) For the Bank, thus, the creation of private property rights in land was now the cornerstone of its efforts in land reform .

In keeping with this, the Bank encouraged transitional economies such as those in Eastern Europe and the former Soviet States to get property rights clearly defined (World Bank 1994). A lack of property rights, by the same token, was blamed for a lack of progress, such as in the case of Fiji (Prasad and Tisdell 1996:34). Similar conclusions were reached with respect to PNG. In a 1995 report, for example, the Bank noted that customary land tenure in that country significantly raised transaction costs and deterred investment. Moreover, by curtailing the available supply of land for development, customary land tenure impeded this progress (World Bank 1995). PNG, as such, was a prime candidate for reforms in this critical area.

5.2 Required reforms

The Bank's proposals for land reform centered around the Land Mobilisation Act. The Act had its beginning in 1985 as the Land Evaluation and Demarcation Project where the World Bank and AIDAB funded feasibility studies aimed at improving the implementation of agriculture and forest projects through improved land administration. The results from this were formalised in 1989 with the implementation of the Land Mobilisation Project, the aim of which was to promote more productive use of land through the mobilisation (registration and development) of land and the promotion of its suitable usage (Turtle 1991:91-92).

The programme, although applied in some provinces such as East Sepik,[53] never gained national attention until the World Bank included land registration as a condition of the 1994 SAP. World Bank funding then saw the proposed Land Mobilisation Act and its aim of land registration taken to the people. In essence, the Act, modeled on the East Sepik legislation, sought to create legal title to land so that owners could enter into commercial agreements (Kavanamur 1998:110). Key aspects of the legislation involved the surveying of land and the delineation of boundaries, the establishment of a land register that listed these boundaries and the designation of

[53] See Power (1991) for an analysis of land registration in this province.

"landowners" or "trustees" that could act on behalf of others. (Pacific News Bulletin 1994: 8).

To the Bank, the creation of a legal title to land in this manner, would advance the development prospects of PNG. It was believed clear title, would encourage greater foreign investor and contractor participation by removing complicated ownership problems, which required time-consuming and expensive compensation negotiations. Reforms would also make it easier for government to acquire land for urban development. Previously land acquisition problems had made it difficult for government to create urban industrial areas and provide adequate urban management systems such as treatment and sewage plants. Finally, the Bank felt that legal title would open the door for an affordable private housing market that would free up public and private investment in employee-related housing (World Bank 1995).

As it was shown in Chapter 1, however, the Act failed spectacularly amidst protests and riots. Precisely why such opposition arose, will be the subject of the following section.

5.3 Customary Land Tenure and resistance to land registration

As pointed out in Chapter 2, land in PNG has remained crucial to society and identity. It provides the foundation for all social groupings - tribes, clans, language groups and families. It has multiple uses and multiple ownership. Transactions involving customary land take place among relatives. Clan members have to consider their obligations to relations when the sale of land is mooted. Clan members must take into consideration social factors such as the effect the sale of land will have on other clan members, their families and the relationships within the clan. These relationships are long term and have evolved over centuries and are not conducive to the commercial relationships that drive land markets. As Cooter (1991) points out, freehold is a law of market exchange while custom is a law of long- term relationships and these relationships are welded together in land ownership. Within this context, land has social significance. It is not an alienable commodity like any other that can be directed by the price mechanism. It is vital to the social fabric of the nation. Resistance to change was amply illustrated in the civil unrest that occurred throughout the nation in response to land registration.

In Goroka, for instance, a crowd of about 5000 protested about the World Bank-initiated land reforms. Government leaders declined to address the crowd or accept a petition and the police were forced to fire tear gas to diperse the crowd (Pacific News Bulletin 1995b;7). In Port Moresby, Deputy Prime Minister Haiveta asked World Bank officials to discuss the reform proposals with protesting students, community leaders and NGO groups (Pacific News Bulletin 1995a:8). This proved to be of no avail as protests escalated, leading ultimately to rioting and the burning of government vehicles (Kavanamur 1998:110). Finally, further illustrating the depth of feeling against the reforms, a protest rally in Oro Province of students, public servants, oil palm settlers, village chiefs, church leaders, landowners, and representatives from NGOs, claimed there would be bloodshed if the reforms proceeded (Pacific News Bulletin 1995b:7).

These protests reflected the importance of customary land tenure to the social structure of PNG. It was not surprising that World Bank efforts should fail.

5.4 Conclusion

The World Bank was not successful in achieving its aims of instituting a land market through land registration. In PNG, land and the system of customary land tenure form the foundation of kinship and other social ties in tribal society It provides the security of work, food and social organisation that forty years of development and modernisation has not been able to provide for a large portion of the population. Dismembering land into discrete parcels owned by individuals would have destroyed the intricate social system founded on customary land tenure. Strong resistance to attempts at establishing private ownership of land consequently arose, leading to the failure of the World Bank's efforts in this area.

CHAPTER 6

Conclusion

The World Bank and IMF have largely been unsuccessful in imposing their agendas of fiscal responsibility, public sector reform and land reform in PNG. In a large part, their efforts in these areas have been undermined by the unique socio-political structure of PNG. Papua New Guinea remains a semi-traditional, tribal society. In this context the state is a weak object that is manipulated for personal or collective (tribal) gain through the political system; it has not and cannot function as a vehicle for radical and far-reaching reforms such as those contemplated by the World Bank and the IMF. Reflecting traditional beliefs and practices, the political structure shows an allegiance to tribal members and *wantoks* . These obligations are satisfied through the redistribution of government resources to clan members and supporters, particularly in difficult economic times such as the 1990s. Consequently, many of the conditions insisted on by the IMF and World Bank were ignored.

This was illustrated firstly in Chapter 3 where it was shown that the socio-political structure impeded the IFI agenda of fiscal responsibility. During the nineties, when the formal economy was in crisis, public resources were directed to supporters and clan members through an extensive system of patronage politics. Political actors, responding to customary obligations through such mechanisms as expansionary fiscal policies, commodity price stabilisation schemes and the Electoral Development Fund, channeled public funds to *wantoks* and tribal affiliates

The socio-political structure also worked against public sector reform as shown in Chapter 4. The objectives of public sector retrenchment and decentralisation - identified as essential by IFIs - were not met. Public service employment numbers increased throughout the nineties as politicians and bureaucrats, utilsing the weak centralised hiring controls within the bureaucracy, employed tribal members and *wantoks* . Decentralisation of government resources and tasks, meanwhile, was avoided as national politicians at the centre entrenched their power through the manipulation of legislation. Traditional aspects of conflict between leaders came to the fore as competing national and provincial politicians sought to be the major distributors of public largesse.

Finally, Chapter 5 illustrated how civil unrest led to the abandonment of World Bank efforts to promote land reform. At the base of this civil unrest were traditional beliefs about land in PNG. Vital to the social fabric of PNG, land formed the basis for all social grouping. Through land registration, the World Bank posed a threat to such customary arrangements, eventually succumbing to the strong protest it encountered.

The fact that the IMF and World Bank have not been able to fully impose their agenda on a small country such as PNG raises important implications. As it was pointed out in Chapter 1, there are two schools of thought regarding IFI intervention - one which argues the influence of IFIs is limited and that countries frequently circumvent IFI conditions, and another which holds such institutions are all-powerful and able to impose their will on nations. The case of PNG lends further support to the former school. As the thesis demonstrates, moreover, our understanding of the basis of such opposition to IFI conditions can be broadened beyond mere political opposition, as currently identified in the literature. In PNG, such opposition stemmed from the very socio-political fabric of the nation.

Bearing this in mind, the findings of this thesis suggest a number of fruitful areas for further research. Research may, for example, focus on the influence exercised by the socio-political structure of countries receiving IFI assistance. Is the PNG case typical of other South Pacific countries that have undertaken SAPs, such as the Cook Islands and Fiji ? Is the socio-political structure of many African countries a reason for poor results with adjustment programmes? What socio-political factors are at play in the transition economies that lead to greater progress economically in some countries over others?

For the IMF and World Bank the implications are no less interesting. If these institutions are unsuccessful in bringing about significant change in countries such as PNG, this may indicate a need to take into account the socio-political structure of a country when planning an adjustment programme. In a country such as PNG, it may be more appropriate for the World Bank, for example, to revert back to project assistance, as the

Australians have done, so as to bypass the political process. Whatever the outcome of such reassessment, such IFIs must conduct far more research work to properly understand countries they are seeking to assist.

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