

GOVERNANCE REFORM IN PAPUA NEW GUINEA

Francis Fukuyama¹

I. BACKGROUND

This document reports on a trip undertaken by the author to Papua New Guinea and to Indonesian Papua from July 21-August 1, 2007. It follows on an earlier trip supported by the World Bank in December 2006.² The purpose of this trip was to investigate problems of governance reform in PNG, with particular attention to subnational government. In addition to conversations with various experts and officials in Port Moresby, the author visited Rabaul, Kokopo, and the Gazelle district in East New Britain, Goroka and Daulo district in the Eastern Highlands province, and Jayapura and Mulia in Papua Province, Indonesia.³

Many outside observers, and many residents of Papua New Guinea, have noted that the PNG state is weak and ineffective in delivering basic government services in large parts of its territory. In the first three decades since PNG's independence in 1975, per capita income grew only slightly; rates of children in primary school are very low, even by the standards of sub-Saharan Africa; roads, schools, clinics, and other public

¹ Francis Fukuyama is Bernard L. Schwartz Professor of International Political Economy at the Johns Hopkins School of Advanced International Studies, and director of its International Development Program.

² See my earlier report, "State-building in the Western Pacific."

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assets are poorly maintained and many have deteriorated over time.⁴ The problem is not lack of resources: PNG is reasonably rich in timber, minerals, energy, and agriculture. After recovering from fiscal crisis in the 1990s, the first decade of the twenty-first century saw the economy as a whole grow at a moderate rate. The problem is that the country's resources are inefficiently exploited and badly distributed, as a result of a highly dysfunctional political system.

Using the terminology I developed in my book *State-Building*⁵, the PNG state suffers from both excessive scope and insufficient strength. Despite the successful privatization of parts of the pension system during the past decade, there are still important sectors of the economy like telecoms and electricity that are locked up in inefficient state monopolies, and would benefit highly from either privatization or greater competition.⁶ At the same time, the government lacks the capacity to deliver many basic public services like education and health, particularly in remote rural parts of the country. Hence the simultaneous reduction of state scope (through privatization) and increasing state strength in basic public goods provision should in principle yield much better public services and economic growth.

⁴ For an overview, see Ben Scott, *Re-Imagining PNG: Culture, Democracy and Australia's Role* (Double Bay, NSW: Lowy Institute Paper 09, 2005).

⁵ Francis Fukuyama, *State-Building: Governance and World Order in the 21st Century* (Ithaca, NY: Cornell University Press, 2004).

⁶ At the time of our visit, the Caribbean telecom company Digicel had invested heavily in both infrastructure and marketing in Port Moresby, but was being denied a license to operate in PNG. The incumbent state-owned operator Telikom was arguing that it needed to protect its revenue base to generate new investment funds, and would not permit Digicel to connect to its network. The impact of much more widespread cellular telephony across PNG could have very large effects on transaction costs, marketing of agricultural products, and intangibly, on national cohesion.

In an earlier paper on state-building in Papua New Guinea, I noted that there were four important generic obstacles to donor-supported governance reform:

- (1) the lack of fit between formal institutions and the underlying society;
- (2) the political origins of state dysfunction;
- (3) inadequate transmission mechanisms to develop local ownership of reform processes; and
- (4) the need for nation-building as well as state-building.

In the current analysis, I want to revisit all of these issues specifically with respect to subnational government in PNG. With respect to obstacle (1), I will discuss the lack of fit between PNG's Westminster political system and its underlying social structure and culture, and why reform of formal institutions is unlikely to be productive.

With regard to obstacle (2), it is important to distinguish between governance problems or dysfunctions that are technical in nature, on the one hand, and those that are rooted in the political system and driven by political actors. An example of a technical governance problem would be a law mandating the devolution of certain public administration functions that left unclear the upward reporting lines of authority and accountability (does the lower-level unit report to district, province, or national government?), or which devolved a function without devolving fiscal authority to pay for that function. An example of a politically-rooted problem would be the desire of an elected politician to retain discretionary budgetary authority separate from that of the permanent bureaucracy, that could be used to directly service constituents and thereby improve the politician's chances of getting re-elected.

With regard to obstacle (3), it is important to keep in mind the critical conceptual distinction is between reforms that can be promoted by international donors, and those

that must be undertaken by political actors within the given society. Obviously, the scope for donor-driven action is much smaller than the indigenous one, but in many cases donors have a stronger desire to bring about particular reforms than do many societal actors. For any given reform, donors have to be realistic about their potential leverage, and work within the constraints given by the political system.

Because of the donors' limited ability to affect underlying political incentives, assistance has often fallen within the technical rather than the political realm. But the most perfect technical advice on administrative or governance reform will be useless unless donors also craft a political strategy to bring about change. This involves an analysis of the incentives facing local political actors that would induce them to either embrace or block a proposed reform.

In Section II below I will present a broad analysis of the PNG political system, that will then provide the context for an analysis of possible political strategies in Section III. Section IV will look at two specific institutions/projects, the Gazelle Restoration Authority and the Kecamatan Development Program (KDP) in Indonesian Papua, and discuss the possibilities for replicating either of them in other parts of Papua New Guinea. Finally, in the conclusion, I will address obstacle (4), the problem of nation-building, with a modest suggestion for how donors might help in this area.

II. WHAT'S THE PROBLEM WITH PAPUA NEW GUINEA'S POLITICAL SYSTEM?

Papua New Guinea's political system is weak in the specific sense used in *State-Building*: it cannot generate strong collective action to undertake important initiatives or even to provide basic public goods, even as it is over-extended in terms of scope and in some sectors does more than it should. This becomes particularly evident when you

cross the border into Indonesian Papua. The Indonesian state has plenty of weaknesses of its own and suffers from corruption, as does PNG. But its ability to concentrate power and to use that power to enforce its authority is much more clearly evident in a multitude of ways, from the military and police forces that are omnipresent throughout the province of Papua, to the generally higher quality of roads, schools, and public services.

PNG's Westminster System

The reasons for state weakness in Papua New Guinea are not rooted in the formal specification of the political system, but rather lie in the way that the political system interacts with the underlying society's social and cultural traditions. PNG inherited from Australia a Westminster system, and among types of liberal democracy Westminster systems are by far the strongest in their theoretical ability to generate decisive political action.⁷ A classic Westminster system combines the following elements⁸: a parliamentary form of executive; a first-past-the-post electoral system with single-member regional constituencies; party discipline; a unitary state; a unicameral legislature; no written constitution; and no judicial review. Compared to other democratic political systems that include features like presidentialism, proportional representation, federalism, bicameralism, and judicial review, Westminster systems feature virtually no formal constitutional checks, or what Cox and McCubbins call veto gates,⁹ on executive

⁷ For an overview of democratic political systems, see Francis Fukuyama, "Development and the Limits of Institutional Design," in *Political Institutions and Development: Failed Expectations and Renewed Hopes* (Washington: World Bank, forthcoming).

⁸ There are no pure Westminster systems in existence today. The country that came closest was New Zealand before the 1990s, but today virtually all Commonwealth systems that initially adopted Westminster systems have modified various aspects of it.

⁹ See Gary W. Cox and Mathew McCubbins, "The Institutional Determinants of Economic Policy Outcomes," in Stephan Haggard and

power.¹⁰ This means that a government elected by a minority of the electorate can, in principle, push through virtually any policy, subject only to being recalled at the next general election. Thus Tony Blair's Labour government won only 42 percent of the popular vote in the 2001 general election, and yet received 62.5 percent of the seats in parliament.

Papua New Guinea does not have a pure Westminster system; it has a written constitution, judicial review, and since 2005 has replaced its plurality electoral system with a limited preferential vote (LPV). Nonetheless, compared to other political systems in the developing world, its formal institutions are theoretically capable of concentrating a high degree of executive power. The fact that this does not happen is testament to the limited ability of formal institutions to overcome deep-seated social and cultural patterns. Despite the lack of *formal* checks and balances, political and social actors in PNG are constantly able to check one another and prevent the emergence of strong collective action on a wide variety of levels, from issues of national defense down to the negotiation of customary land rights.

State Weakness: Symptoms and Causes

The primary manifestation of this weakness is, of course, the absence of strong national political parties, which are the primary vehicle by which other Westminster systems generate strong government. Voters vote for members of parliament based heavily on *wantok* loyalties, which leads to government majorities being formed on the

Mathew D. McCubbins, eds., *Presidents, Parliaments, and Policy* (Cambridge, UK: Cambridge University Press 2001).

¹⁰ Westminster systems in countries like the UK, Canada, Australia, or New Zealand were constrained by other types of checks,

basis of highly unstable coalitions based on personality and patronage networks.¹¹ The shift to the LPV system has not altered this reality; the number of parties represented in the 2007 parliament is 22, the same as in the 2002 election.¹² PNG is perhaps the most glaring exception to Duverger's Law, which states that first-past-the-post electoral systems tend to produce two-party political systems.

But there are many other manifestations of state weakness as well. The Papua New Guinea Defence Forces are very small compared to those of other developing countries (and especially when compared to neighboring Indonesia), and have not been strong enough to enforce state authority on recalcitrant provinces or regions. The fact that the Chan government had to turn to an external security company, Sandline, to suppress the Bougainville revolt, and that the government in Port Moresby fell apart upon exposure of this move, is a case in point.¹³ The fact that 99 percent of the territory of PNG is tied up in customary land tenure, and the inability of the state to exercise eminent domain, is another. PNG's lack of alienable land for foreign investment or even for public buildings constitutes a major obstacle to development, and yet it is hard to foresee a government strong enough to change this situation. Again, the contrast with Indonesian

such as a free press and active civil society, that were not parts of the formal political system.

¹¹ See R. J. May, *Disorderly Democracy: Political Turbulence and Institutional Reform in Papua New Guinea* (Canberra: Australian Natl University State, Society and Governance in Melanesia Project, Discussion Paper 2003/3, 2003); Benjamin Reilly, "Political Engineering and Party Politics in Papua New Guinea," *Party Politics* 8(6), 2002: 701-718; and R. J. May, "The 'clan vote' in Papua New Guinea open elections," *Journal of Pacific Studies* 29(1), 2006: 108-129.

¹² In addition, the average number of candidates running per district and the number of MPs elected as independents changed little from the previous election.

¹³ The fact that the PNG state is too weak to be repressive is, of course, a big advantage for democracy in that country. Indonesia is

Papua, where the Suharto dictatorship nationalized a significant proportion of the province's land, is striking.

Another source of state weakness in Papua New Guinea lies in a general failure of delegation throughout the system. In a well-functioning Westminster system — indeed, in any type of well-functioning democracy — the legislature sets general policy guidelines and hands off implementation to the executive, which should be home to a competent, professional, and stable bureaucracy. There is of course a lot of argument as to where to draw the line between political and administrative issues, and there have been many controversies over charges of excessive or insufficient executive branch discretion in developed democracies. But the principle of delegation to an independent administrative realm is fundamental to the working of the system, and generates a large literature on agency problems incurred when agents don't do the bidding of principals.

In Papua New Guinea, the political/administrative boundary is much more blurred, and the efforts of legislators to reach into the executive realm weakens the ability of the latter to act cohesively. There is of course a chicken-and-egg problem here: part of the reason that politicians get involved in administrative issues in the first place is the fact that bureaucratic capacity was always weak and unable to deliver important services. Yet the years since independence have seen a progressive undermining of the administrative structures bequeathed to PNG by Australia by politicians eager to expand their own discretion. A case in point was the 1995 Organic Law, whose ostensible purpose was to decentralize power, but whose actual impact was to increase the power of

cited as a contrast not because it is a normatively better political system, but rather because it illustrates what a stronger state can do.

the national MPs at the expense of provincial governments.¹⁴ Many people charge that the law recently passed by parliament to move authority from provinces to districts represents a similar power grab on the part of national politicians, whose influence is much greater at a district than a provincial level.

The failure of delegation in PNG is manifest at a more local level as well, in the organizations set up to represent customary landowners in negotiations with foreign investors. It has been very difficult to delegate clear and stable authority to these intermediary bodies, in part because their authority is subject to constant renegotiation as the landowners themselves jockey for relative advantage. The lack of clarity in delegation then makes it easier to manipulate the system *ex post*.¹⁵

The sources of state weakness in Papua New Guinea lie in the country's social structure and culture. The extreme ethnolinguistic fragmentation of the country is noted by every observer of PNG, and is obviously the root cause of the failure to generate strong collective action at a national level. It is not just that the society is fragmented; the underlying social groups are very strong and cohesive compared to traditional social structures in other developing societies. The acid of modernization that has dissolved traditional social structures and driven millions of people to from countryside to cities or abroad in much of Latin America and Africa is much less evident in PNG.

The failure of delegation would appear to lie in the relatively egalitarian communal structures that characterize much of traditional PNG society. Papua New

¹⁴ We found a lot of confusion in our discussions about the origins of the Organic Law. Many Papua New Guineans, and some in the donor community, seem to think it was a donor-driven initiative. The truth seems to be that this was a PNG initiative from the start, and driven by local PNG political interests.

Guinea is arguably one of the most inherently democratic societies in the world. Villages and other local communities generate consensus through prolonged discussion and deliberation. Leadership—in the form of “big men”—is achieved rather than ascribed. It has to be demonstrated over time, and is constantly subject to challenge and change.¹⁶ Political life in most developed democracies, by contrast, is far less participatory: citizens vote every few years, but otherwise are content to delegate huge amounts of authority to elected representatives and vast governmental machines about whose workings they know very little, except when decisions by the latter directly affect their lives and property directly.

Papua New Guinea’s Westminster system should, in theory, provide an adequate institutional basis for strong government. The fact that it does not suggests that the source of weakness does not lie at the institutional level. There are some institutional tweaks that may increase political cohesion at the margin, like the recent introduction of the limited preferential voting system. But it is hard to imagine a different set of democratic institutions that would lead to stronger and more decisive government. Indeed, it is hard to imagine an authoritarian alternative that would be likely to lead to better developmental results.¹⁷ This suggests that further governance reform on the level of macropolitical institutions is very unlikely to yield significant results.

¹⁵ See Kathy Whimp, “Indigenous land owners and representation in PNG and Australia,” unpublished paper, 1998.

¹⁶ See Bruce Harris, *Papua New Guinea: A Nation in Waiting. The Dance of Traditional and Introduced Structures in a Putative State* (Washington: World Bank, 2007).

¹⁷ It is an interesting imaginative exercise to think about the effects that a presidential system would have on PNG’s politics and sense of national identity. Normally presidential systems are not recommended for highly fragmented societies, though there are ways of getting around this by forcing presidential candidates to receive

State Weakness: A Balance Sheet

The inability of the PNG political system to generate strong collective action is both a blessing, and an obstacle, to development. There are many advantages to PNG's weak state-strong society balance. The state as a whole is probably immune from the sorts of dictatorship that have arisen in other developing countries. Since there is no dominant ethnic group, there is no political basis for a strong regional or national party than can oppress the rights of minorities. The state, at least for now, does not have institutions like an army or police that have the capacity to dominate the society.

Indeed, it would appear that PNG is very unlikely to experience the sorts of state failure that have characterized countries like Somalia, Afghanistan, Liberia, Sierra Leone, and the Balkans. PNG's failure of collective action is so pervasive that there are no warlords or regional centers of power strong enough to challenge the state itself. Bougainville, of course, challenged Port Moresby's right to make local resource allocation decisions, but was never in a position to take power in the capital the way various Somali clans have fought over control of Mogadishu. And while there is continued tribal fighting, it remains small-scale and different from the warlord politics that overtook West Africa or the Balkans during the 1990s. It is very hard to imagine a Charles Taylor emerging in the context of contemporary PNG politics.

On the other hand, state weakness has many downsides that have been noted over the years. Probably the most important from a development standpoint is the lack of political accountability that characterizes the system as a whole, and therefore the

majorities in a wide variety of ethnically-different constituencies (a voting system used in Nigeria and Sri Lanka). However, presidentialism has a lot of downsides, and making this kind of large-scale switch is not remotely feasible politically.

relatively weak demand for equitably distributed public goods. Electoral democracy is deeply rooted in PNG, but it is largely seen as a contest over the distribution of rents that are then available for distribution back to the narrow constituencies that are responsible for electing members of parliament. In many districts, elections resemble a lottery in which politicians have a small chance of winning big. The competing *wantok* groups would rather have a ten percent chance of walking off with 100 percent of the winnings, rather than surety that they would have a smaller, proportional share of the whole pie. As a result, the state's failure to provide basic public goods for a large proportion of its citizens is not punished at the ballot box, which in turn gives politicians small incentive to fix problems that do not affect their immediate constituencies. While there are individual reformist politicians in Papua New Guinea, there is not a strong, national reform party for which one can vote if one wanted to move beyond the older form of clientilistic politics.

State weakness has any number of other consequences, including the bleeding off of public resources through corruption, the state's failure to adequately monitor investment projects and enforce environmental and other rules, and the like. One area where a stronger state would be critical to economic development is in the area of adjudicating land rights issues. The scarcity of alienable land is a huge obstacle to economic growth,¹⁸ as well as to the expansion of state services. Given the complexity of existing customary property rights claims and the large numbers of claimants, a strong state may be needed to simply impose a reasonably fair settlement.

¹⁸ This point has been contested by some observers, who argue that customary land registration should allow groups to own land and borrow against it. This system has not worked well in practice, however.

III. PATHS TO REFORM: THE DESIRABLE VERSUS THE OBTAINABLE

The absence of a strong, independent executive, the lack of cohesive national political parties or party discipline, and the absence of constitutional checks at a provincial or local level mean that the most powerful actors in the political system are, by default, individual national legislators and the short-lived coalitions they manage to put together. They are the ones who have been pushing out the boundaries of their own authority over the years, not so much because the formal system gives them power, but because the other collective bodies are so weak. This is what drove passage of the 1995 Organic Law that strengthened their hand at the expense of provincial legislatures. A bill recently passed by parliament to move authority from the provincial to the district level, similarly, will enhance the power of individual national MPs at the expense of the provincial governors, and was pushed for exactly that reason.

Any feasible political reform, and any successful donor-funded project, has therefore to be undertaken with a view to the interests and incentives of this group of politicians. This political context cannot be abolished or wished away. (It is also not the case that national MPs are necessarily corrupt or inevitably interested in pursuing narrow clientilistic interests—see below.) While it is possible to imagine many reforms and projects that would be highly desirable, the scope of what is feasible is much more limited to what this group of legislators will see or can be made to see as being in their own self-interest.

Take, as a case in point, the District Support Grants that individual MPs have at their disposal. Many reformers regard the DSGs as open invitations to corruption since there is no effective accountability for how individual MPs spend these monies. Many reformers would therefore like to see them abolished altogether. In the report I wrote

following my last trip to PNG in December 2006, I suggested that it might be worthwhile studying empirically how the DSGs are actually used in various districts, with a view to making their distribution fairer and more transparent.

The reasons for following this route rather than seeking total abolition take us back to the political realities of the PNG system. Part of the reason that the DSGs exist in the first place is that the provincial and local administrations in many parts of the country are ineffective and lack the capacity to provide basic public services. DSGs give legislators a way of bypassing this bureaucracy and delivering resources directly to constituents. The DSGs also help incumbent MPs politically by giving them resources to distribute. While it would certainly in theory be preferable to distribute government resources through the regular bureaucracy, abolishing the DSGs will not make this happen. It is far more plausible that an MP could be convinced to distribute the DSG more fairly, thereby getting credit from a wider circle of constituents, than to agree to having the money taken away altogether. This type of reform could be introduced, with donor support, on a district-by-district basis, without having to be rolled out nationally. The introduction of the LPV electoral system should in theory incentivize politicians to create alliances across districts, and thus provides an opening for a broader distribution of discretionary funds in support of such an initiative.

Technical versus Political Fixes

Australia and other donors have been providing technical assistance and advice on governance issues for many years now. There is a great deal of knowledge about the sources of technical dysfunctional governance in Papua New Guinea. A partial list would include:

- Broken accountability links at the provincial government level, with the abolition of provincial parliaments after 1995. Provincial governments could be the source of major policy initiatives like KDP-style community-driven development projects, but for the most part do not have the authority to do so now.
- Severe lack of basic administrative capacity and infrastructure at the district and LLG levels, particularly in remote areas. This means that any devolution of power from the provincial to the district level may lead to services not being provided, or a de facto increase in the power of the national MP for the district.
- Confused and inappropriate financing mechanisms for different levels of government. After 1995, financing did not follow transfer of functions from one level of government to another, resulting in what were in effect unfunded mandates from higher to lower levels of government. This was particularly debilitating in light of the limited ability of lower levels of government to raise their own revenues.
- Duplication of administrative functions. Supervision of wards and LLGs was made the responsibility of both provincial governments and district administrations, unnecessarily consuming limited resources.
- The inability of the national government to monitor and hold accountable lower levels of government, due to inadequate resources. This was a particular problem since bottom-up accountability at the provincial level had simultaneously been weakened.
- Inappropriate assignment of responsibilities for capital and recurrent spending. The latter was given to provinces and the former to districts, when in fact capital investments should have been initiated at higher levels of government. Most investment projects like roads, schools, and clinics need to be made with a view to the priorities of larger geographic areas than individual districts.
- Confused and unclear reporting lines between LLG, district, provincial, and national levels of government.

The preceding analysis suggests that no important governance reform or ambitious donor-sponsored project will happen in Papua New Guinea unless it receives strong political support from the right group of national MPs. The feasibility of undertaking any of these technical reforms then requires analyzing how institutional change would affect the interests of individual legislators, and trying to build reform coalitions around those

who might want to support change. As in any country, this will be a slow and difficult process.

What kind of political interest will there be in undertaking political reform over the next few years? There is a fair amount of cynicism among many long-time observers of PNG about the political class as a whole, and a belief that virtually all politicians are corrupt or narrowly self-interested. In the course of two visits it seemed evident, to the contrary, that there were a fair number of individual politicians, as well as individuals within the bureaucracy, who had a broader view of the country's interests, wanted to do the right thing, but were hobbled by (1) an inability to coalesce around particular reform issues; and (2) by a severe lack of information about the real sources of governance dysfunction. The latter in particular is quite debilitating. Many provincial governments do not know the size of their own budgets and are unable to track many forms of expenditure; provinces and local level governments complain that simply knowing when the budget has been allocated for execution is difficult leading to service delivery delays; programs have not been subjected to cost-benefit analysis and cannot be weighed against each other; people seem unaware of or disagree on the range of services that they should be demanding of their government; there is a strong civil society but the networks that would allow more collaboration with local government appear not to be in place; and finally, new MPs are allegedly unaware of their responsibilities once they are elected – an information package or learning program that would get them up to speed was much discussed during our visit.

This suggests a very specific role for donors. Donors often try to put themselves in the driver's seat of a reform process, using conditionality or other forms of leverage to

get client countries to do the right thing.¹⁹ Decentralization, civil service downsizing, and anti-corruption drives have all be urged upon countries and paid for with donor funds. The problem with this approach is of course that when demand for reform comes from external sources, political actors within the country fail to take ownership of the process, and the reforms themselves fail to reflect the internal on-the-ground conditions needed for success.

A different approach would be for donors to concentrate on doing what they know best, that is, by generating and making available information on how the governance system is actually functioning or, more particularly, not functioning. It would not be up to the donors to act on this information, but rather up to local politicians to use it to advance their own political careers. Policy debates could be based more on evidence than on advocacy. If no one takes up this opportunity and challenge, then no reform will happen; but donors should not fool themselves that they could succeed in pushing forward institutional change in the absence of local demand for reform.

Indeed, donors have already invested a great deal in institutions to collect data, analyze public policy alternatives, and disseminate information on these subjects. These include the National Research Institute, the National Economic and Fiscal Commission, the Institute of National Affairs, and the University of Papua New Guinea. My own observations about PNG are built directly on the work of these bodies. But in light of the gaps in knowledge about how the PNG system actually works, they could use substantially more capacity and resources invested over a long period of time.

¹⁹ I am not accusing Australia of having done this, but it is known to have happened in the history of foreign assistance!

An example of this would be donor-supported expenditure-tracking surveys with regard to the DSGs. As noted in my earlier paper, there is a lot of speculation but relatively little empirical knowledge about where DSG funds go. Many of them end up paying for public goods, but even when this is the case, there is a strong suspicion that they are not used efficiently, and that these public goods are not distributed fairly over the entire district. Exposure of the actual flow of money might serve to embarrass politicians into spending the funds in a different manner, or possibly in greater demands for electoral accountability.

If substantially more basic information about budgeting, expenditure flows, reporting responsibilities, and the like were made publicly available, would some ambitious PNG politicians see it in their self-interest to make use of this information to correct the problems? And if they did, would it be possible to assemble the necessary coalitions to push for reform? The World Bank has used public expenditure tracking surveys (PETS) extensively to measure the supply of public services like health and education. One of the most widely cited of these was one which measured the degree to which budgeted funds for primary education reached frontline providers in Uganda. A newspaper campaign publicizing capture of school funds by officials was said to have reduced the proportion of money diverted from 80 to 20 percent between 1995 and 2001.²⁰ AusAID and the World Bank have already support a public expenditure tracking survey focused on the education sector that tracked flows of funds and leakages

²⁰ See Ritva Reinikka and Jakob Svensson, "Local Capture: Evidence from a Central Government Transfer Program in Uganda," *Quarterly Journal of Economics* 119(2), 2004: 1-28; and Ritva Reinikka and Jakob Svensson, *The Power of Information: Evidence from a Newspaper Campaign to Reduce Capture* (Washington, DC: World Bank Policy Research Working Paper 3239, 2004).

in the system, that showed among other things that the bottom 1/3 of schools were receiving no grants at all, and that leakage of subsidies was 16-29% in 2001, but fell to zero the following year when the subsidy was increased and distributed entirely by the national government.²¹ The World Bank supported a broader Papua Expenditure Analysis and Capacity Harmonization (PEACH) project on behalf of the provincial government of Papua Province, that tracked among other things sources of revenue and regional variations in expenditures.²² These worthwhile efforts could be expanded considerably.

IV. EVALUATION OF SPECIFIC PROJECTS

We can put analysis of two specific projects into this broader context, the Gazelle Restoration Authority, and the prospects for implementing a community-driven development project in PNG.

Conditions for the Success of the Gazelle Restoration Authority.

One of the objectives of our mission was to assess the conditions for success of the Gazelle Restoration Authority, and whether it might be used as a platform for launching a KDP-style community driven development project in Papua New Guinea. We interviewed a number of officials of the GRA, toured a number of sites financed by the project, and discussed with other observers the conditions for the projects success. In my view, the GRA could be replicated in other parts of PNG provided that the donors

²¹ *Papua New Guinea: Public Expenditure and Service Delivery (PESD)*, 30 June 2004.

²² See World Bank, *Papua Public Expenditure Analysis Overview Report: Regional Finance and Service Delivery in Indonesia's Most Remote Region*.

keep in mind several conditions for its success, and in particular the need for a supportive political environment.

The Gazelle Restoration Authority is a statutory authority supported jointly by the World Bank and the national government in Papua New Guinea. The purpose of the GRA was to aid in the resettlement and rebuilding of people and businesses affected by the 1994 volcanic eruption in Rabaul. It set up a parallel administrative structure to that of the provincial government, with its own pay scale, hiring authority, and board to which it was ultimately accountable. Many of the GRA's personnel were recruited from the provincial government. It is not clear the extent to which good practices learned in the GRA have transferred back to the provincial administration.

The original purposes of the project were clearly defined and limited, and now have been largely completed. Since the GRA is widely recognized as an effective administrative structure given the project's original purposes, those associated with it have argued that it should continue to be funded as a development rather than a reconstruction agency and be absorbed back into the administration to support the operations and maintenance division at the provincial level.

After our discussions, it appeared that there were at least six important factors that had made the GRA a success:

1. There was a supportive political environment. The funding on the PNG side came from national rather than provincial sources, backed by East New Britain's influential (and now former) MPs, Sir Rabbie Namaliu and Sinai Brown (who was also premier of the provincial government before it was abolished by the 1995 Organic Law). They supported the resourcing of the project, but also did not seek to micromanage the GRA's operations, leaving oversight up to an independent board. The latter was very important, given the record of other PNG politicians seeking to place protégés or allies in bureaucratic positions, or otherwise directing spending on projects in specific ways. It will be interesting to

see what the GRA's fate will be now that it has lost important political support in Port Moresby.

2. The GRA was conceived as a time-limited project to deal with a specific issue, relocation of people threatened by the Rabaul volcano. For this reason it emerged as a separate bureaucracy with hiring and firing rules different from that of the provincial bureaucracy. GRA officials were incentivized through overtime pay and overall staff numbers were kept small.
3. At the same time, the provincial bureaucracy in East New Britain was of relatively high quality compared to other provincial administrations. This province does not score the highest in terms of provincial performance and we were told that there were sectors where it performed poorly. But overall, the provincial administration's quality is critical since the GRA has to work closely with it.
4. There was a separate line of funding from international donors like the World Bank, to which the GRA was also accountable. The GRA has evidently gotten quite good at accounting for its own budgeting and spending due to the multiple reporting requirements it faces, which allows it to resist political pressures from the provincial bureaucracy or national politicians.
5. The GRA paid a lot of attention to community relations. GRA is not a community-driven or community-based project, insofar as spending decisions are ultimately made by the provincial government in East New Britain and only implemented by the GRA. Nonetheless, the GRA has spent a great deal of time consulting with community leaders at a local level—LLG presidents, ward councilors, traditional leaders, women's groups, churches, and the like. The GRA sponsors a weekly radio show in which it reports on the status of its own projects. Even if provincial officials were not ultimately required to take community views into account, the participatory process seems to have smoothed the way for its decisions.
6. Finally, there seem to have been some local conditions that facilitated the project's success. I am not in a position to assess some of the assertions made by the GRA staff to the effect that Tolai culture made it easier to implement such an undertaking. It would appear, however, that civil society may be better organized in this part of East New Britain—both “modern” civic groups like business associations, and traditional ones on a village level. This of course facilitates the process of consultation.

How many of these characteristics could be transferred to other parts of Papua New Guinea? Obviously, donor support and the creation of a separate administration structure can be moved anywhere. The community consultation model is also

transportable, though the effectiveness with which it is implemented will depend, obviously, on the local knowledge of those doing the consulting, and the degree to which local community organizations existed with which such an authority could work.

Not all provinces however would be able to provide a political environment that was as facilitative as that of East New Britain, however. (And the trigger event, the volcano, is also not transferable!) There is an inherent moral hazard built into the funding model, since the PNG resources all come from the national government, while all of the benefits go to the province. As long as political support is forthcoming, the province has no particular incentive to use the funds it gets effectively; the fact that this does not seem like a big problem in East New Britain is related to the fact that the project objectives are limited and clearly defined, and to the particular abilities of the politicians and officials connected with it.

The big test for the GRA will come if and when it is converted from a reconstruction to a development agency. Part of its success rested on the clearly delimited mission it had (both in terms of function and time). If it morphs into a development agency, it will duplicate services already offered by the provincial government in East New Britain, and its overall impact on governance will depend heavily on whether these duplicated functions are ultimately taken away from the provincial government. Moreover, the GRA's performance in remote parts of East New Britain like Pomio and Bainings has been much poorer than in Kokopo and Gazelle. Before moving on to new development projects in the latter districts, it might be better to provide services to the rest of the province first. If it is alternatively closed down and reabsorbed into the provincial bureaucracy, it will be important to consider ways in which

the good practices learned by the GRA could somehow be transferred back to the provincial government.

Some Observations on the Kecamatan Development Program and its Relevance to Papua New Guinea.

While AusAID and other international donors support community development projects in Papua New Guinea that provide funding to civic and other groups throughout the country, donors currently do not support a community-driven development project (CDD) like the Kecamatan Development Program (KDP) in Indonesia. A number of people expressed the view that this type of CDD project would not work on the PNG side, so one of the purposes of the trip was to see whether this was true. We visited some KDP villages in Indonesian Papua, and talked at length with local officials in the provincial administration, including the governor of the province, Barnabas Suebu, and advisors to the governor including Agus Sumule.

The governor of Papua is a major proponent of the KDP, and while we were in Indonesia his office was just in the process of rolling out a CDD-like program of its own design, *Respek*. His plan was to distribute the substantial autonomy funds coming from Jakarta across the province, including remote parts of the highlands that to date have not been beneficiaries of KDP. As he explained it, the material benefits that *Respek* would provide to villages was only a minor objective of the program. He hoped that villagers being given access to substantial funds for which they were collectively responsible would learn techniques of budgeting, fiscal planning, and fiscal discipline, which they would carry forward with them beyond the life of the *Respek* program. He said that in that part of Indonesia resources would not be a problem: apart from the autonomy funds coming from the central government, there were substantial revenues from forestry and

mining projects that would only increase in the future. He said that the problem was that villagers didn't know how to deal with resources and couldn't, in effect, organize themselves for collective action. It was his hope that the *Respek* program would teach them about how to manage and spend resources, and that this social capacity was in itself a goal.

It is evident that *Respek* has another purpose besides this, which is to allow the Indonesian state to promote stability by getting resources out directly to the village level throughout Papua, rather than by using force to control the province as the earlier dictatorship had done. The Indonesian government does not want a repeat of Timor Leste's secession, and faces a long-standing Papuan independence movement. In this respect, the program's success depends not on whether it actually creates the kinds of capacities envisioned by the governor, but rather whether it establishes an alternative distribution channel by which the autonomy funds can reach the broader population without being frittered away in corruption. If it thereby creates a greater sense of partnership between local communities and the provincial and national governments, it will have served an important purpose. As one of our interlocutors said, the Indonesian government maintains 50,000 troops in Papua and didn't want to keep doing so indefinitely; it needs a peaceful way of assuring the loyalty of Papuans to the Indonesian state.

Before discussing how CDD might play out in Papua New Guinea, it is important to review what community-driven development is, and how it is meant to work more

broadly.²³ CDD projects like the KDP in Indonesia or the National Solidarity Programme (NSP) in Afghanistan make block grants to local communities (the Kecamatan being the lowest level of government in Indonesia's hierarchy, encompassing several villages). The World Bank has to work through national governments to distribute the grants, though independent NGOs have run CDD-type projects that bypass the central government altogether. The villages or local communities receiving the grant are helped by facilitators to decide how to use the funds, which are usually spent on a menu of standardized infrastructure projects like schools, clinics, roads, and the like.

CDD if done properly is highly labor-intensive on the part of the donors and government. Its purpose is to empower local communities to take ownership of development projects. But donors do not want projects to be captured by local elites, and therefore spend a great deal of effort helping to structure the communities in ways that reflect donor values like democracy and gender equality. CDD therefore requires a fair amount of outside intervention and sensitivity to local social conditions. In Indonesia, this is done by contractors working for the central government; in Afghanistan, the NSP facilitators are largely NGOs.

CDD serves a number of distinct purposes, some of which are not fully articulated in official documents describing such projects. Obviously, one goal is to build local ownership of development projects, beginning with local input on project choice, but often continuing through implementation and later operations and maintenance. There is

²³ For an overview of the origins of community-driven development, see Sebastian Mallaby, *The World's Banker: A Story of Failed States, Financial Crises, and the Wealth and Poverty of Nations* (New York: Penguin Press, 2004), pp. 183-206; and Mansuri, G. and V. Rao (2004), [Community-Based \(and Driven\) Development: A Critical Review](#), Washington DC, World Bank.

a hope that the exercise of local community choice will help to build social capital, that will survive the end of the external funding.²⁴ But an important if often unstated goal of CDD is to bypass corrupt or ineffective levels of local government, and allow development funds to be inserted directly at a community level where they cannot be siphoned off. This implies bypassing of formal subnational political institutions, and the creation of a parallel service delivery structure. Ideally, establishment of a competitive service delivery channel puts pressure on the local government to perform better, leading eventually to a reabsorption of this function into the government.

CDD projects like the KDP and NSP have been seen as successful in getting resources quickly to communities in need of them, and in building ownership of development projects.²⁵ What is less clear is the degree to which enduring social capital has been created that will last beyond the duration of the project. It is also unclear what CDD's long-term impact on local government is, that is, the degree to which CDD induces better service provision to chronically underfunded local governments through the competitive pressure of an alternative service delivery channel, or simply ends up creating a parallel, donor-funded structure.

²⁴ See Anthony Bebbington, Scott Guggenheim, et. al., eds., *The Search for Empowerment: Social Capital As Idea and Practice at the World Bank* (West Hartford, CT: Kumarian Press, 2006).

²⁵ Chase, R. S. (2002), "[Supporting Communities in Transition: The Impact of the Armenian Social Investment Fund](#)", *The World Bank Economic Review* 16(2): 219-240; Fox, J. and J. Gershman (2000), "[The World Bank and Social Capital: Lessons from Ten Rural Development Projects in the Philippines and Mexico](#)", *Policy Sciences* 33: 399-419; Rao, V. and A. M. Ibanez (2003), [The Social Impact of Social Funds in Jamaica: A Mixed-Methods Analysis of Participation, Targeting and Collective Action in Community Driven Development](#), Washington DC; World Bank (2003), [Project Appraisal Document: Indonesia Third Kecamatan Development Project](#), Washington DC.

On our trip, a number of interlocutors suggested reasons why a KDP-style project might not work well in Papua New Guinea. The main concerns revolved around injecting large sums of money at a local level, and what this would do to the social dynamics of villages and rural areas more generally. There is very weak capacity at the LLG and ward levels of government, and limited ability to organize communities. Given the multiple overlapping forms of local authority—big men, ward councilors and LLG presidents, modern civil society groups, and the like, block grants might become a source of conflict. There was some question as to whether traditional leaders would accept the authority of a new structure created by donors.

It is not clear to me that any of these local-level considerations would be decisive in preventing a KDP-style project from succeeding in PNG. The KDP, after all, has operated in Papua under the same general social and cultural conditions as on the PNG side of the island. CDD does not depend on having a strong system of local government in place; indeed, it is premised on the absence of effective local government and organizes communities to provide services to themselves. Obviously, the success of CDD depends heavily on how knowledgeable the facilitators are about local conditions and the power relationships between the local actors. There is no inherent reason why this would be done worse in Papua New Guinea than in Indonesian Papua.

The major constraints on CDD in PNG might come, instead, at the other end of the hierarchy. CDD projects, at least of the sort that the World Bank supports, depend for their success on the existence of strong partners at the central (or in some cases, provincial) government level who are developmentally minded and want to use the funds for broad purposes of poverty alleviation. Although the success of this (or any other

development project, for that matter) depends on politicians seeing it in their self-interest to promote them, CDD will not work if the latter regard the block grants as a form of pork to distribute to their constituents. It is an open empirical question as to whether any coalition of national legislators in Papua New Guinea would see it as being in their interest to have significant resources distributed broadly and in ways they could not fully control, in the manner that central governments in Indonesia, Afghanistan, and other countries have. In addition, there is no PNG equivalent of an Indonesian provincial governor, that is, a directly elected provincial official who commands independent decision-making power, who could oversee the project.

A further problem would be capacity limitations among project facilitators. In Indonesia, the KDP employs some 6,000 facilitators, a number that is scheduled to increase to 10,000 as the number of villages covered increases. In Papua and West Papua, the government can draw on human resources from other parts of Indonesia; in addition, these provinces have large populations of transmigrants who are both beneficiaries of and participants in the program, with generally higher levels of education and skills. It is not clear where the human resources to staff a CDD project in PNG would come from. If they were to come from NGOs rather than contractors, it would be important to survey the number of existing organizations that might be employed in this fashion.

As in the case of GRA-style projects, the possibilities for KDP-style projects in PNG would depend, then, not so much on local conditions but on the broader political framework. That is, success would require identification of national leaders who understood the purpose and functioning of community-driven development, and saw it in

their interest to promote this kind of a national project. If such partners could be found at a national or provincial level, a CDD-type project would give donors considerable leverage in forcing development funds to be spread around more equitably rather than targeted against narrow constituencies. On the other hand, if the national political leadership is not on the same page as the donors, then the CDD project could itself become the object of political competition.

There are other areas in which Papua New Guinea and Indonesian Papua might share experiences and insights beyond CDD. For example, the two jurisdictions are at opposite ends of the scale with regard to their approach to customary land rights, with PNG having been highly protective and Indonesia taking many of those rights away. As noted earlier, lack of alienable land is a big obstacle to development in PNG, while loss of customary land in Papua has been a major source of grievance for the indigenous Papuan population. PNG has developed a system of village and land courts that build on local traditions and yet get funding from the national government. While it took a long time to put a funding system in place, the system seems to work tolerably well. Given that neither society has hit quite the right balance, it would seem that both sides might usefully learn something from one another in this regard, perhaps facilitated by donors.

V. CONCLUSION: RETURN TO NATION-BUILDING

I noted in my last paper that one of the important reasons why donors have a difficult time promoting good governance and strong institutions is that state-building often depends on prior efforts at nation-building, particularly in fragmented societies without a strong prior sense of nationhood. That is, if people working for a government do not have a sense of broader public purpose oriented toward the nation as a whole, but

look rather to narrow ethnic, tribal, or other loyalties, then high quality public service will not be possible. National identity does not come prepackaged in any traditional culture; it has to be socially constructed by national elites.²⁶

There are numerous cases where economic modernization took place concurrently with a self-conscious program of nation-building. Japan, South Korea, India, and Tanzania are all cases of countries which created symbols and institutions of national unity to bind their countries together. The latter two are particularly relevant to Papua New Guinea, since they, unlike Japan and Korea, were ethnically divided societies at the time of independence.

Donors usually feel that nation-building, as opposed to governance reform, is outside the scope of their competence and authority. This is correct insofar as they are outsiders to the society and do not understand or appreciate many of the cultural dimensions out of which identity needs to be formed. On the other hand, there are certain indirect things they can do to foster national identity, particularly through education.

Nation-building projects are usually top-down rather than bottom-up affairs. While the raw materials out of which national identity is formed percolate up from the bottom, nation-builders often have to exercise strong centralized authority to impose the new identity (in the form of language, shared history, symbols, and institutions) on the broader population. Nation-building is therefore very much an elite-driven affair, and it can be fostered by efforts to create a national elite educational system.

²⁶ For a broad discussion of the socially-constructed nature of nationalism, see Ernest Gellner, *Nations and Nationalism* (Ithaca, NY: Cornell University Press, 1983).

The Australian colonial administration evidently had a sense of this when it established four national high schools that deliberately took young Papua New Guineans out of their home provinces and educated them in different parts of the country in order to give them a sense of the country's diversity. Many of the country's early leaders came out of this system. But this system has broken down; while individual schools may be of comparable quality, there is little deliberate attempt to engineer a new national elite.

While we were in Indonesian Papua, Governor Suebu talked about his own plans to create a system of boarding schools for indigenous Papuans that would deliberately educate them apart from their families and clans. It is not clear whether the province has the resources or the capacity to put this kind of system in place for large numbers of students. But the purpose of this approach is clearly to help create a new elite that has a broader sense of identity as a Papuan, presumably one that is also linked to an Indonesian identity.

It is not generally fashionable for donor agencies to support elite education (though this did form part of the 2005-2006 Australian White Paper on aid). Elite education comes at the expense of universal primary and secondary education, and often creates an unemployable cadre of privileged students who often end up getting absorbed by the state sector. However, Papua New Guinea's lack of national consciousness is so severe an obstacle to good governance that a donor-funded program to promote a national elite might deserve a second look. While I generally think that reformers ought to focus on fixing policies and institutions before trying to manipulate culture, PNG constitutes a special case in which it is hard to see significant institutional change taking place before there is a change in cultural attitudes. This kind of cultural change has to begin with

elites, and will start out as a top-down affair. This kind of initiative will not be felt for another generation or so. But the generation that was formed by the last effort at creating a national elite includes some of the country's most important reformers, and it is not clear who is going to replace them.

An overall theme of this paper has been that the parameters of what is possible in terms of governance reform in PNG will be set by the political actors and the system they operate in, and that reform design must take into account their interests and incentives. But the preferences and views of political elites can themselves change, though clearly this is a long-term process. Shaping a new national elite is, however, something that all successful nation-builders have had to undertake, sooner rather than later.