

that in a true democracy, the second-largest party (UC) should be well represented. Even Neaoutyine of Palika, who never liked Lafleur, called Leroux “open to dialogue.” Lafleur declared a “blockage” in the Congress’s ability to function and insisted on having a place for himself in any executive discussions. Meanwhile, Paris replaced High Commissioner Didier Cultiux with Dominique Bur, who attempted to mediate in the institutional crisis, as did French Minister for Overseas Territories Jean-Jacques de Peretti during a one-week visit. The new Congress finally began its first session in early September with a delicate FLNKS-UNI-UNCPT-DECA entente working to forge a “consensual solution” that could marginalize Lafleur’s rump RPCR.

Kaloi replaced Frogier as president of the Consultative Committee, and together the FLNKS and UNCPT won control of more committees than did the RPCR. Sako, whose party had achieved legitimacy by receiving a seat in Congress, observed that the RPCR had not extended its hand to others when it had a majority, and new political forces were emerging. The FLNKS declined Sako’s request for the RDO to “enter the house” as a full member but invited it to continue as an ally. In October, the major parties sent delegations to Paris to discuss the last phase of the Matignon Accord leading up to 1998. Lafleur became conciliatory, speaking of “emancipation,” whereby France would devolve all powers except defense, foreign affairs, and public order to the territory. But Palika asked for independence in 2001 (and local control over the nickel industry), while Leopold Jorédié of the Northern

FLNKS suggested 2018. In December, Wamytan replaced Neaoutyine as president of the FLNKS and raised the ante by demanding complete independence in 1998.

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PAPUA NEW GUINEA

In his address marking the twentieth anniversary of independence, Prime Minister Sir Julius Chan noted how far the nation had come since Australia handed over power on 16 September 1975. However, this was a generally somber speech, full of negative references to two decades of pain and sweat, unmet challenges, wrong turns, and unrealized potential. He said the current situation was “by no means . . . unsalvageable, [but] it would be grossly foolish to say that all is well with our society, our economy and particularly with some of our attitudes” (*PC*, 15 Sept 1995, 11). The country’s first prime minister, Sir Michael Somare, was more blunt, stating that the nation was in ruins and the people “worse off than they were at the time of independence” (*IB*, Oct 1995, 33).

Some major reforms designed to set Papua New Guinea on a new development course were already in place by the time Chan spoke to the nation in September. In a pattern familiar from other parts of the third world, several of these “structural adjustments” were imposed by international development agencies and aid donors as conditions for emergency loan finance.

Stabilizing the economy was a major preoccupation of the Chan-

Haiveta government after it came into office in late August 1994, with Deputy Prime Minister and Minister for Finance Chris Haiveta citing evidence of “entrenched” economic mismanagement. “From January through to August 1994,” he claimed, “Papua New Guinea was on a mad slide down to disaster” (*PR*, 21 March 1995, 1–2). Governor of the Bank of Papua New Guinea Koirari Tarata later confirmed that over a two-year period the country had come “to the brink of defaulting on its offshore liabilities on three different occasions” (*PR*, 9 Oct 1995, 1). Remedial measures were in place by the end of 1994, but offshore finance still had to be found to support a rapidly weakening currency and cover a projected balance of payments deficit for 1995.

While the lords of third-world finance, the World Bank and the International Monetary Fund, prepared a rescue package and a long list of conditions, the government desperately sought alternative sources of support. However, Haiveta’s plan to sell off, or mortgage, the state’s interest in large resource projects was vigorously opposed by Mining and Petroleum Minister John Giheno (*PC*, 10 June 1995, 3). There were legal difficulties as well, and by March the government had effectively abandoned its plans to sell equity in mining and oil projects in favor of a scheme to float up to 49 percent of the Mineral Resources Development Company, which manages the state’s interests in such enterprises (*PC*, 28 Feb 1995, 41; 20 March 1995, 5). This could not be accomplished in a hurry, and the float is now scheduled to occur in April 1996 (*PC*,

13 Nov 1995, 17). In the end, Papua New Guinea’s attempt to “rescue itself” appeared to amount to the sale of A\$30 million worth of preference shares in the Ok Tedi mine to joint venture partner Broken Hill Proprietary, although in June there were reports that Taiwan had agreed to provide a loan in return for greater support in its diplomatic war with the People’s Republic of China (*PC*, 1 June 1995, 1; *PR*, 5 June 1995, 1).

Meanwhile the external pressure was building rapidly. In February, the secretary of Australia’s Department of Foreign Affairs and Trade indicated that Papua New Guinea’s attitude to the World Bank’s restructuring package would be a factor in the annual review of the A\$300 million Australian aid program. In April, Chan and Haiveta met with Australian Prime Minister Keating to request an emergency advance on aid funds designed to stem the fall in the value of the kina. Instead, they got a standby loan facility—part of which was withheld pending World Bank approval of Papua New Guinea’s restructuring efforts (*PR*, 24 April 1995, 1; *PC*, 5 May 1995, 1). The country’s high commissioner to Canberra later complained that “Australia has told us we are naughty boys, has hit us on the backside and is leaving us to solve the problem for ourselves” (*PR*, 17 July 1995, 1). In fact, Australia was leaving Papua New Guinea at the tender mercies of the World Bank.

Negotiations with the World Bank began in earnest in May, and focused on a list of twenty-seven issues that the bank insisted be addressed before a rescue package could be approved.

Finance Minister Haiveta pointed out that the bulk of these concerns had already been addressed in his 1995 budget, prepared in close consultation with bank officials. Scrambling to come to grips with the financial crisis just a few months after taking office, Haiveta had chosen to present the budget in two parts. The first part, handed down in November 1994 in the form of a supply bill, effectively set the revenue side of the budget equation for 1995. The other part, dealing with government spending, was addressed in detail in the budget proper handed down in March 1995. This document allowed for a modest increase in government spending during the year, but signaled a sharp reduction in the budget deficit from 2.8 percent of gross domestic product in 1994 to 1 percent, or ₣58.1 million, in 1995. Equally important for the international financiers was a significant shift away from recurrent spending on wages and other administrative costs toward investments in longer-term capital or development projects.

Structural adjustment, according to Haiveta, "means changing the way Government operates to make it more efficient and responsive to community needs" (*PC*, 14 July 1995, 15). This involved reducing the size of government, and in March he proposed cutting the sixty-thousand-strong public service by 7.5 percent, or 4,500 positions by the end of the year. Arguing that "reckless wage claims cannot be tolerated," Haiveta announced that public servants' wages would remain tightly controlled during the year. Government functions were to be rationalized, with the departments of Energy

Development and Communications and Information slated for abolition, and ten other departments targeted for reform. Other state agencies and corporations would be partly privatized or sold off altogether. To boost the flow of resources into capital projects, funding for the Public Investment Program was increased by 51 percent to ₣309 million, and that for construction and maintenance by a similar percentage to ₣228.7 million. The minister also outlined new measures designed to prevent budgetary allocations earmarked for investment being used instead to finance recurrent expenditures, as had often occurred in the past.

Another essential component of structural adjustment, according to Haiveta, was creating "the right environment to create more jobs and improve . . . living standards" (*PC*, 14 July 1995, 15). In line with the conventional wisdom in the World Bank, this meant deregulating the economy to allow the private sector to do its work according to the logic of global market forces. Through progressive changes in taxation and tariff regimes, domestic industries would gradually be exposed to market forces. Those that were internationally competitive would prosper, while those that were not would go to the wall. In his March budget, Haiveta launched the trade liberalization program by replacing all existing trade bans with tariffs, in most cases to be set initially at 40 percent; announced the phased removal of all price controls; and reduced import duties on a range of food items and building products. In addition, the long-standing investment regime

reserving certain small business activities solely for Papua New Guinea nationals would be phased out over a two-year period.

However, not all of the World Bank's concerns were addressed in the 1995 budget. The government declined, for example, to move quickly to restructure the key agricultural sector, with its complex network of institutions, protective mechanisms, and subsidies. Instead it promised to review the sector and consider phasing out the expensive commodity price support scheme. Haiveta was understandably reluctant to tamper with a system that provides many rural producers, who are also voters, their only reliable source of cash.

The realities of patronage-based electoral and coalition politics also explain the government's reluctance to abolish the controversial Electoral Development Fund, which gives each member of Parliament personal control of an annual "slush fund" of K500,000 for projects in their respective electorates. Government leaders stoutly defended the fund, not only to World Bank officials, but to Chief Ombudsman Simon Pentanu, who noted that guidelines designed to make politicians accountable for these expenditures were routinely and flagrantly violated, and to students, who demonstrated against the scheme outside Parliament in March (*PC*, 22 March 1995, 11; 29 March 1995, 1). The Electoral Development Fund was eventually abolished in the 1996 budget handed down in November 1995. It was replaced by the Rural Action Program, endorsed by the World Bank because it promised more stringent

control and accountability. Predictably, the new scheme encountered fierce opposition in Parliament, with members threatening to block the passage of the budget unless this particular structural reform was modified or reversed (Callick 1996, 35; Waram 1996, 28).

The government's deal with the World Bank was vigorously opposed by nongovernment organizations, community groups, and university students. Rather than solve the country's ailments, argued one university-based organization, the structural adjustment program would "kill the patient" (*PC*, 9 Jan 1995, 14). They were particularly concerned about an initiative designed to facilitate the registration of land held under customary forms of tenure, some 97 percent of all land in Papua New Guinea. This actually had its origins in a 1989 agreement with the World Bank and the Australian government to restructure the Department of Lands and Physical Planning. In late 1994 the government finally turned its attention to the customary land registration aspect of the Land Mobilization Program and hired a local firm, Henano Lawyers, to study the issue and recommend appropriate legislative action. However, in July the consultants' fact-finding tour of highlands provinces had to be abandoned in the face of angry demonstrations in Wabag, and some four thousand students and others marched on Parliament to protest the proposed reform. Unwilling to risk more unrest, Minister for Lands Sir Albert Kipalan put an "indefinite freeze" on the investigation, an action later endorsed by Prime Minister Chan in a full-page news-

paper advertisement (*PC*, 19 July 1995, 1, 2; 4 Aug 1995, 51).

Government leaders also encountered opposition to the structural adjustment deal from a senior colleague. In May, Minister for Commerce and Industry David Mai publicly described as “criminal” the proposed removal of protections for indigenous business activity (*PC*, 31 May 1995, 31). In July, he issued a 15-page media release containing a more comprehensive indictment of the structural reform program. The conditions imposed by the World Bank, he argued, would undermine Papua New Guinea’s sovereignty, have negative economic effects, aggravate existing social problems, and might lead to widespread civil unrest (*PC*, 19 July 1995, 3, 36). Although clearly embarrassed by this very public criticism, and perhaps with the 1997 election campaign in mind, Prime Minister Chan declined to sack his cabinet colleague and political ally. Instead, after delivering a relatively mild public rebuke, he took advantage of a major cabinet reshuffle precipitated by other developments and quietly promoted Mai to the position of minister for Agriculture and Live-stock (*PC*, 20 July 1995, 1; *PR*, 14 Aug 1995, 4).

Well aware that earlier initiatives had quickly fallen by the wayside, World Bank officials tried to ensure that the impressive list of reforms announced in 1995 would actually be implemented. They warned that the loans, totaling some US\$450 million, were conditional on action, and insisted on the formation of a task force, headed by former Secretary of

Finance Morea Vele, to implement the structural adjustment program agreed to in May (*PR*, 12 May 1995, 4). By the end of the year, however, seasoned commentator John Millett could detect little progress on the layoff of public servants announced some nine months before, even though a further 2,500 layoffs had just been announced in the 1996 budget (*PC*, 1 Dec 1995, 11).

Other observers were alarmed at developments in the lucrative forestry industry, which the World Bank had insisted be managed carefully. Under pressure from Australia and the bank, the government had endorsed a “code of conduct” on logging and forestry development and agreed to a planned phase-out of raw log exports to encourage local processing activities. Late in the year, however, the government appeared reluctant to renew its contract with a Swiss company hired to monitor industry practices on the ground. Then in October, veteran public servant Jean Kekedo was dismissed as head of the National Forest Authority, ostensibly for not acting fast enough to approve legitimate logging projects and for failing to produce a new forest plan (*PC*, 20 Oct 1995, 2). However, critics wondered whether her dismissal had more to do with her refusal to endorse timber projects of personal interest to powerful politicians (*PC*, 22 Nov 1995, 21).

Ironically, the same lack of institutional capacity, causing persistent calls for administrative reform, may frustrate or prevent the implementation of such reforms. The political commitment to comprehensive structural adjustment is relatively shallow, as indicated by Prime Minister Chan’s

pragmatic “beggars can’t be choosers” response to domestic critics of the program (*PC*, 20 July 1995, 3). Whatever momentum was built up under the crisis conditions of 1994–95 is likely to dissipate rapidly with the onset of better times. With the aid donors and financial institutions back on side, the currency stabilized, commodity prices on the rebound, the state’s investment in the Kutubu oil project beginning to pay dividends, the South-East Gobe oilfield looking promising, and construction finally about to begin at the giant Lihir gold mine, those better times are likely to appear soon. Perhaps more important will be the onset of the 1997 election season, which may get under way as early as mid-1996. Former Prime Minister Rabbie Namaliu identified the “distraction” of the 1992 election campaign as a contributing factor in the demise of his government’s reform program (Namaliu 1995, 5–6). Not even the World Bank can force the pace of change, provided political leaders avoid another “mad slide down to disaster,” and the need for a further emergency bail-out.

The Chan-Haiveta government was, however, determined to reform the provincial government system. The Organic Law on Provincial Government and Local-Level Governments pushed through Parliament in June 1995 had its origins in the recommendations of the Bi-partisan Parliamentary Select Committee, chaired by Ben Micah, which presented its final report in August 1993. In July 1994 the resulting legislation, which had passed its first reading in Parliament earlier that year, was revised and redrafted,

largely in response to the almost universal opposition of provincial leaders. Early in 1995, recently elected Prime Minister Chan made it clear that this new version was nonnegotiable, and in March 1995 the redrafted Organic Law easily passed its second reading in Parliament. However, as the date for the third and final reading approached, it was apparent that a significant number of members of Parliament were having second thoughts (May 1995, 12–14).

As expected, the minister for Communications and architect of the existing system of provincial government, John Momis, actively opposed the reforms, predicting they would “cause far more problems than they would solve” (*PC*, 4 April 1995, 11). Perhaps influenced by the intense lobbying efforts of provincial leaders, other members of Parliament expressed concern about errors, omissions, and inconsistencies in the legislation, and wanted more time to consider the political implications of such a major change. Matters came to a head in June, when the second largest party in the coalition, Pangu, announced that its members would not vote for the legislation in its present form. There were also indications that opposition leader Paias Wingti was unwilling to follow through on an earlier agreement to deliver bipartisan support for the legislation (*PC*, 19 June 1995, 1). A determined Chan used all of his political skills to persuade both parties to vote for the existing bill and introduce amending legislation later (*PC*, 23 June 1995, 1). This maneuvering was not without cost, and of the fifteen members who finally voted against the

legislation or abstained, seven were government supporters who had helped Chan become prime minister in 1994. Five of the dissenters were cabinet ministers (the other two were vice ministers)—all of whom were fired from cabinet the following week (*PC*, 13 July 1995, 3; 14 July 1995, 1).

Chan said this was probably the greatest moment in his political career, and described the reform itself as the most crucial achievement for Papua New Guinea since independence (*PC*, 28 June 1995, 1). His enthusiasm, shared by most of his parliamentary colleagues, was understandable, because, according to political scientist Bill Standish, the Micah reforms represent “essentially a grab for power by national MPs and ministers” (*PR*, 8 May 1995, 2). The legislation replaces existing elected provincial bodies with assemblies consisting of nominated representatives of local-level government, customary leaders, women, and community groups. All national members from the provinces are automatically members of the assembly. The member representing the province-wide electorate becomes the governor of the province, heading the provincial government and chairing its assembly. Undoubtedly the greatest losers under the new system are the provincial politicians, who must now compete for election to the national parliament in 1997 or turn their attention to local-level government (May 1995, 14–15).

The new system ties the provinces much more tightly into a centralized political and administrative system, and gives the local members of Parliament, and particularly the governor, enormous power over the additional

resources that will flow out from Port Moresby. Advocates claim that the new system will decentralize power further than before, and point to provisions in the legislation designed to enhance the status and resources of local-level governments. However, as Standish pointed out, “the problem is that local-level governments do not exist in most of the country,” and will have to be created before the 1997 elections, when they are supposed to assume their considerable responsibilities (*PR*, 8 May 1995, 2).

Although the promised legislative amendments never materialized, the implementation phase of the reform was well under way by the end of the year. By August, all the interim provincial assemblies and interim governors, including former Prime Minister Paias Wingti, and former Speaker Bill Skate, had been installed. The 1996 budget honored the provisions of the new Organic Law by earmarking an additional K200 million for the provinces, most of which came from cutting appropriations to national departments and agencies and foreshadowed an even bigger diversion of resources in 1997. This was a reminder that full implementation of the reforms will require a massive transfer of resources, personnel, and programs from government departments in Waigani to the provinces. Minister for Finance Haiveta was not exaggerating when he claimed that the reforms represented “the greatest challenge for fiscal policy since independence” (*PC*, 23 Nov 1995, 4).

Significant developments took place in Bougainville in 1995, although a permanent resolution of the seven-

year-old secessionist crisis was still not in sight by the end of the year. After the rebel leadership declined to participate in the Arawa peace conference in October 1994, Prime Minister Chan turned his attention to those leaders who were prepared to negotiate with him, particularly reformed Bougainville Revolutionary Army (BRA) legal adviser Theodore Miriung. In the early part of 1995, Chan and Miriung held a series of meetings to hammer out the details of the Bougainville Transitional Government, the centerpiece of the Mirigini Charter they had signed the previous November. When the members of the new government were duly sworn in on 10 April, Chan hailed the birth of a new Bougainville, one that promised a return to peace and normalcy. He emphasized that this was a transitional government, a vehicle to achieve “the next and final step—a permanent and suitable provincial system crafted and designed for Bougainvilleans by Bougainvilleans” (*PC*, 11 April 1995, 12).

The major problem for Chan and Miriung was that the BRA leadership were committed to derailing the new government. At Miriung’s urging, Chan announced an “open door” policy regarding BRA participation in the transitional government, and chiefs in central Bougainville invited Francis Ona, Sam Kauona, and Joseph Kabui to be their nominees in the assembly (*PC*, 1 March 1995, 1; 3 March 1995, 2). But the BRA’s top leaders rejected these overtures out of hand, with Kabui describing the transitional government as a “fence” set up to lure Bougainvilleans away from their struggle for independence. What the people

wanted, he said, was not peace and normalcy, but peace and freedom (*PC*, 4 April 1995, 3). The Bougainville Revolutionary Army also responded negatively to the Waigani Communiqué signed by Chan and Miriung on 18 May, which, among other things, canceled bounties offered for the capture of rebel leaders and offered amnesty “to various members of illegal and criminal forces, groups and individuals” (*PC*, 22 May 1995, 5, 50). Meanwhile, BRA armed raids continued, including one that killed a passenger on a civilian plane taking off from an airfield near Buin in February (*PC*, 22 Feb 1995, 1). Rebel activity increased significantly in July and August, resulting in the deaths of at least nine members of the security and resistance forces and the burning of government buildings in northwest Bougainville (*PC*, 28 Aug 1995, 1).

In line with his new policy of letting Bougainvilleans solve their own problems, and determined to close what he called “the saddest chapter of our short history as a nation,” Chan reluctantly endorsed a meeting in Australia between leaders of the transitional government and representatives of the outlawed Bougainville Interim Government (*PC*, 31 Aug 1995, 3). These exploratory talks, which took place at a resort town near Cairns in early September, were hailed as a “historical breakthrough” by Martin Miriori who represented the secessionists, along with Mike Forster, Moses Havini, and David Onavui (*PC*, 11 Sept 1995, 1; 13 Sept 1995, 2). The delegates agreed in principle to continue the dialogue.

After some disagreements over “ground rules” had been overcome,

the All Bougainville Leaders' Talks took place 14–18 December in Cairns under the joint chairmanship of representatives of the secretary-general of the United Nations and the secretary-general of the British Commonwealth. Each side was represented by a thirteen-member delegation, which on the rebel side included top BRA commanders Sam Kauona and Ishmael Toroama, as well as the head of the Bougainville Interim Government, Joseph Kabui. All four of Bougainville's national members of Parliament also attended. The meeting was significant because it brought together the top leadership of the island's opposing factions for the first time, and the Joint Communiqué outlined an agenda for a new round of talks to be held in Bougainville in March or April 1996. The leaders undertook to work toward "early agreement" on issues such as cessation of violence, confidence building, human rights, renewal, and socioeconomic development, so that negotiations with the Papua New Guinea Government could begin as soon as possible (*PC*, 20 Dec 1995, 5).

The leaders also agreed to discuss Bougainville's future political status, the issue that remains central to the resolution of the crisis. The rebels still appear committed to independence. Describing the leaders' meeting as "a gigantic leap forward" for the generations to come, Joseph Kabui said his mission had been "to tell our brothers and sisters from the PNG-controlled side" that his group stood for nothing less than independence: "The process that has now begun . . . will finally . . . bring us towards realization of that dream. I believe we will realize it some

day, one day" (*PC*, 20 Dec 1995, 5). Prime Minister Chan appeared willing to contemplate autonomy for Bougainville. As he told Parliament in September, "We can push a horse to the pond but we can't force it to drink the water. We can never get them [Bougainvilleans] to be part of this country. At some point we must think about the level of autonomy." However, he effectively ruled out full independence as an option when he said that the proposed level of autonomy must be "within the acceptable parameters of the Constitution and acceptable to Parliament" (Papua New Guinea Parliament 1995, 8).

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