Papua New Guinea

Years of unabated and systemic corruption within Papua New Guinea's government machinery and preoccupation with political self-aggrandizement over economic rationalities finally took visible toll on the country's economy in 2001. Anyone familiar with the country's past glory days strolling through the streets of Port Moresby would no doubt confront the stark realities of poverty in the eyes and physical appearance of most city dwellers. Indeed, Prime Minister Sir Mekere Morauta concedes that the 1990s was a decade of lost development for Papua New Guinea, evidenced by the country's disappointing human development indicators (*Post-Courier,* 18 Oct 2001).

With a population of over 5 million people (up by 36 percent since the last census in 1990) and a growth rate of 3.1 percent compared to 2.7 percent in the last decade, the Asian Development Bank (ADB) declared that over a third of the population now live in absolute poverty (ADB 2001). The country's average income fell by almost 75 percent from a high of US$1,300 in 1994 to US$744 in the millennium as the economy entered a nontransitory period of recession (*National,* 24 Sept 2001). Public debt rose to K8 billion in 2001, compared to K3 billion in 1999 when Morauta took office. Morauta's long and winding "road to recovery" and promised "date with destiny" (made in November 1999 during the parliamentary presentation of the 2000 budget) inevitably made public-sector reforms the dominant issues. Most significant was the sale of state-owned enterprises in 2001.

For the preceding two years, the Morauta government and the Privatization Commission have had to contend with the results of years of rampant corruption and mismanagement by political appointees, which by 2001 had virtually destroyed the independence and decimated the capital of most of the state-owned enterprises. Because the release of further World Bank loans was premised on the privatization of the state bank, the Papua New Guinea Banking Corporation (PNGBC), it had to write off bad debts amounting to K45 million in order to attract potential buyers and struggled with nonperforming loans in its portfolio. The previous year had seen the state bank incurring a declared operating loss of K31 million when it spent K114 for every K100 earned. Other state-owned enterprises were all technically insolvent. The Electricity Commission was over K400 million in debt, while Air Niugini had incurred operating losses of K42 million in 1998 and K36 million in 1999 (*National,* 26 July 2001). Post PNG, which is responsible for mail delivery, owed creditors some K25 million and was subsequently placed under liquidation.

In response to trade union opposition to the privatization of PNG Banking Corporation and an anti-land mobilization movement comprising university students and socialist nongovernment organizations, Prime Minister Morauta challenged his critics to choose between "service" and "ownership" and provide tangible alternatives to privatization. The prime minister lamented, "We will try and explain but I can't go on explaining until the nation is dead" (*National,*

18 July 2001). A two-day protest in July against privatization and land reform by students and unsuspecting squatter settlers, who were mobilized by socialist nongovernment organizations, resulted in the death of four University of Papua New Guinea students when live bullets were fired on the protesters by police riot squads flown in from the Highlands region. The confrontation resulted from a police attempt to break up a sit-in by protesters in the Waigani government area.

Elsewhere, in the superannuation industry—where political appointees flexed their muscles on the boards—the carnage of corruption was also visibly clear. A commission of inquiry looked into the mismanagement of the National Provident Fund (NPF) that resulted in a 15 percent write-down of private-sector workers' funds; they learned that the former NPF chairman, Jimmy Maladina, who had since fled together with his family to Queensland, Australia, had decimated the fund of almost K8 million. Jimmy Maladina was appointed to the NPF board by the former government of Bill Skate under intense pressure from the former finance minister and parliamentary leader of Morauta's People's Democratic Movement party (PDM), which was a major coalition partner in the Skate government. Some of the stolen money (K200, 000) was rumored by the opposition leader, Sir Michael Somare, to have been solicited by Morauta to change the Skate government in 1999 (*National,* 6 Dec 2001). Moreover, between K1 and K3 million of the NPF funds was also alleged to have been paid to twenty-seven PDM ministers whose names were identified in an affidavit sworn in a Brisbane court by an Australian associate linked to the NPF scam. The business associate was the managing director of PNG First Real Estate, one of the companies used by the ringleaders as a front for parking the missing NPF funds (*National,* 6 Dec 2001).

Nor was the Defence Force Retirement Benefits Fund spared the reach of politicians and their political cronies. The NPF Commission of Inquiry unearthed serious loopholes in the superannuation laws and practices, prompting Morauta to appoint a super funds task force to revamp the industry and avert it from further dilapidation.

Furthermore, politicians themselves lived up to their notoriety in terms of appropriating funds from the public coffers for personal use. In 2001 the Ombudsman Commission referred ten ministers of parliament to the public prosecutor on charges of misconduct. Such charges usually involve trial before a leadership tribunal and often result in dismissal from public office for a period of only three years. Eight of the ministers allegedly misused funds from the National Gaming Control Board (NGCB), which had been a major cash cow under the former administration. Because Morauta's PDM party had been a major part of the coalition in the disgraced Skate government, eyebrows were raised when the Morauta government had to hastily write off a total of K15 million from the NGCB books. This was made possible by parliament's acceptance of amendments to the National Gaming Control Board Act. The amendments were sneaked into parliament by the leader of government business and

voted on by an unsuspecting parliament, as ministers are often not given sufficient time to read what they are voting on, or they simply do not have the time to wade through tedious and lengthy public policy documents.

Broader public-sector reforms in the public service and PNG Defence Force were attempted. A confidential policy submission to cabinet in March 2001 sought to reduce the size of the force. However, this was met with stiff opposition from personnel based at Murray Barracks, the force's headquarters, leading to a dangerous standoff between the mutinous soldiers and Morauta. Resentment appeared to stem from the fact that the reform measures originated from an external task force, namely the Commonwealth Eminent Persons' Group, put together by Morauta and the Commonwealth Secretary-General in London. That this would have resulted in a much leaner, better-equipped, better-disciplined, and better-trained force did not matter to the disgruntled soldiers. For them the important issue was job security in an increasingly uncertain economic and political environment. To resolve the standoff, Morauta gave in, in deference to a new reform package to be designed internally, but given the country's financial mess, he insisted that retrenchment was necessary for the PNG Defence Force to remain viable. By the end of the year it was clear that the force would have to downsize by 1,307 men to a ceiling of 2,000 before March 2002. The first list of 110 names was approved by the Defence Council and submitted to the Department of Personnel Management. This time the Australian government made retrenchment funds available.

The year also saw the passage of a major piece of legislation, namely the Organic Law on Political Parties and Candidates (the Integrity Law). Legislative reforms to the electoral system have also been proposed to replace the current first-past-the-post system with the optional preferential voting system. The Integrity Law sought to limit the number of independent candidates and uncommitted party members who have been known to hop from party to party, thereby intensifying political instability. The new law also established a Political Party Board responsible for registering parties and administering the rules aimed at instilling discipline and reducing the number of parties. By year's end, twenty-two parties had registered for the looming 2002 election.

The preferential voting system seeks to broaden a candidate's representativeness. The majority of politicians have won their seats by a margin of victory of less than 6 percent over the runner-up, and this pattern has increased since the 1977 election. In fact, from 1977 to 1997 the number of seats with winning margins of 2 percent or less almost doubled, from 23 to 44 out of a total of 109 seats. In 1997, 80 out of 109 ministers (73.4 percent) won their seats by less than 6 percent (Okole 2001). Thus the obviously irrational behaviors of PNG politicians could be viewed as dysfunctional coping strategies in response to their high attrition rate at the polls.

Yet another major piece of reform was the restoration of the Public Services Commission, in a nostalgic effort to relive its glory days before 1986 when it monopolized the power to hire and fire. The reform promises to

eliminate the power of politicians to appoint cronies and business associates to senior positions in the public service and state-owned enterprises. The rejuvenated Public Services Commission would help restore appointments to provincial governments such as that of the Southern Highlands, where, as political infighting wore on, at the end of 2001 no less than four provincial administrators were being paid against a position for only one (*Post-Courier,* 20 Dec 2001).

The Morauta government also moved to subject the perks and privileges of heads of state-enterprises to the review of the Salaries and Conditions Monitoring Committee. This was done by endorsing a proposal to have state-owned businesses established under the Companies Act be subject to the monitoring committee. Hitherto, a practice has been for political appointees to state-owned enterprises to draw up their own employment contracts, seldom for less than K200,000, and subsequently engineer their own termination by the minister responsible, or by another minister acting on the position while the incumbent minister purposely takes an overseas trip. The politically appointed executive then cries foul and either goes to court or lobbies for an early out-of-court settlement. This tactic when not checkered is used to attract full-contract entitlement payment for the usual contract period of three years, to the detriment of the concerned state-owned enterprise. Various parties to the deal, including the minister responsible, stand to benefit from the distribution of the spoils.

The efforts of the Morauta government to reform the PNG economy eventually paid off, at least for the time being, in December 2001 when the World Bank announced the release of the second tranche of a US$90 million loan under the Governance Promotion Adjustment Loan initially agreed to in June 2000 (World Bank 2001), as well as the approval of a US$70 million loan from the Asian Development Bank toward public sector reform (ADB 2001). The Morauta government's public-sector reforms are being coordinated by the Public Sector Reform Management Unit, located within the prime minister's department, and the Central Agencies Coordination Committee. The loan funds are earmarked mainly for meeting the costs of retrenchments, and improvements to human resource management and payroll system. Nearly all aid donors including AusAID have contributed to PNG public-sector reforms since 1997, often under the generic terms of "good governance" and "institutional strengthening."

The release of the loan monies came in the wake of the decision by the Morauta government to sell 75 percent of PNG Banking Corporation to a local bank, Bank South Pacific (BSP), for K175 million (*National,* 30 Nov 2001). The sale price itself was controversial in that a year earlier the value of the state bank had been estimated at K400 million. The choice of Bank South Pacific as the highest bidder was also controversial as it was reported that the Australian and New Zealand Banking Group (ANZ) was willing to pay K200 million. Arousing further controversy was the government's eleventh-hour decision to sell 75 percent of the bank, 25 percent more than its initial share offer. In addition, conflict of interest in the sale

was alleged on the part of key officials with vested interest in the parties to the sale. For example, the managing director of the Privatization Commission, Sir Henry ToRobert, is also the chair of Credit Corporation, which prior to the sale was a major shareholder in Bank South Pacific, the buyer of PNG Banking Corporation; the BSP chair is the current managing director of Credit Corporation; and the current PNGBC executive chair is the former chair of Credit Corporation. Ironically, after the sale of PNG Banking Corporation, Privatization Commission Executive Chair Ben Micah had to quit his K400,000 post, as he himself was declared insolvent by the National Court for owing the banking corporation over K481,000, with annual interest accruing at 11 percent (*Post-Courier,* 24 Dec 2001).

By December 2001, a number of agencies from within and without gave scorecard evaluations of the Morauta government's performance. The PNG Institute of National Affairs, a private-sector think tank, credited the Morauta government with making positive reforms to the political system and monetary policy and moving the resolution of the Bougainville crisis to within a pen's stroke, as parliament had only to vote on an autonomy package following the signing of the Bougainville Peace Agreement on 30 August, but they also reported that the government had failed to remove obstacles to investment and growth, which it identified as corruption, infrastructure problems, crime and theft, and policy instability.

The International Monetary Fund commented that the government's structural reform and economic stabilization program stayed on course despite a very volatile business environment, and lauded the public-sector administrative reform. It noted that functional reviews for the departments of Finance, Treasury, Prime Minister and National Executive Council, Personnel Management, Foreign Affairs, and the National Fisheries Authority had been completed.

The Australian government–owned Export Finance and Insurance Corporation concluded that the PNG economy was on the verge of "terminal decline" as Morauta had failed to avert budgetary and external liquidity problems. It particularly feared that public debt (K8 billion) would become unsustainable in the long run if no new foreign capital flows were found. However, it also accepted that the prime minister deserved credit for keeping the economy afloat through stabilization and structural adjustment programs.

At the end of 2001, one got the feeling that the future of PNG as a viable state was critically dependent on the kind of political leadership the voters would enlist after the June 2002 national election, one not simply in the category of being a lesser evil.

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Vanuatu

Vanuatu experienced another change of government as a result of a no-confidence motion in 2001. While no-confidence motions have formed part of the political landscape in Vanuatu in recent years, what made this event extraordinary was the involvement of the Supreme Court in the parliamentary wrangles. These events have dominated politics in Vanuatu in 2001.

At the beginning of the year the government was a coalition headed by Barak Sope of the Melanesian Progressive Party. The other main partners in this coalition were the Union of Moderate Parties, the National United Party, and the Vanuatu Republican Party. This government had come to power in November of 1999, when then Prime Minister Donald Kalpokas of the Vanua'aku Party resigned in order to avoid a no-confidence motion.

Dissatisfaction with the Sope-led government had been growing, due in large part to its dealings with Amarendra Nand Ghosh. Ghosh, a Thai businessman, came to attention in April of 2000. It was around this time that, soon after giving the Vanuatu government 10 million vatu for disaster relief, he was appointed Honorary Consul to Thailand and awarded honorary citizenship. This resulted in complaints that he had effectively bought a diplomatic passport. Throughout the year his business interests in Vanuatu and involvement with various politicians increased, raising some concerns. Toward the end of 2000 Ghosh's involvement with the Vanuatu government took a somewhat bizarre turn as he presented the country with a gift of a ruby allegedly worth US$174 million. The stated purpose of this gift was "that it could be used as collateral to get financial assistance" (*TP,* 6 Dec 2000). No independent valuation of this ruby was available however, nor was it available to be inspected by customs officers. The ruby's valuation on Australian customs declaration forms was only US$40,000, casting further doubt on its value.

In March of 2001 dealings between Ghosh and the Vanuatu government took a further strange turn when it was revealed that the government had signed an agreement with Ghosh that apparently would give him bank guarantees worth US$10 million over a period of ten years. As a further part of this agreement a Hong Kong–based company, Sun Jewel group, who had agreed to buy the ruby for US$175 million, was to manufacture gold and silver coins for sale by the Reserve Bank of Vanuatu. The agreement provided that Ghosh would pay the costs associated with the manufacturing and transport of these coins, and the Reserve Bank of Vanuatu would keep all proceeds associated with the coins. This agreement was signed despite doubts expressed by the governor of the reserve bank as to the legality of such actions (PIR, 23 Mar 2001).

Another factor that contributed