

Submission to:

Inquiry into Australia's relationship with Papua New Guinea and other Pacific island countries

(c) development cooperation relationships with the various states of the region, including the future direction of the overall development cooperation programme.

FACILITATING COMMERCE IN PAPUA NEW GUINEA

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This submission argues that assistance for small business development should be a priority in Australia's aid programme to Papua New Guinea, proposing certain initiatives

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PREAMBLE

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Dr Hunt was, from October 1998 to May 2001, a senior research fellow in the Economic Studies Division at the National Research Institute of Papua New Guinea, Port Moresby. Prior to that he lectured at the National Centre for Development Studies at the Australian National University for 4 years. He has over 20 years experience in research and as a consultant to Australian and international agencies, including the Asian Development Bank, AusAID and ACIAR.

Author Dr Geoffrey Stocker is an agri-businessman and consultant specialising in tropical forest management and policy.

Dr Stocker was Professor of Forestry at the PNG University of Technology (1989 - 1992) and Director of the PNG Forest Research Institute (1993 - 1996). He has also undertaken consultancies for various organizations in the Asia/ Pacific region (including FAO/UNDP, JICA, UNESCO and AusAID).

Both authors at different times have had experience as the managers of aid programs from both recipient and donor perspectives. Our thesis here is that the major inhibitors to a more effective use of Australia's aid contribution in promoting social and economic development, are deep-seated cultural factors within the recipient society. In these circumstances, aid largely directed at institutions is not likely to be as effective as aid that creates a grassroots demand for the reform of those institutions. For instance law and order reforms are more likely to be successful and sustainable when demanded by the community than when imposed from above. The demand for a more effective police force will increase as a higher proportion of the population become involved in the cash economy and depend more on the police to ensure their produce is protected from theft and supplies arrive safely at their destinations.

We argue that grassroots demand for reform will not occur until communities realise that they have much to gain from more effective institutions. Further, we believe that small business development has a vital place in creating grassroots support for reform and have expanded on this theme below. In a report for AusAID, Baxter (2002) pointed to stultified rural development as a major issue. Here we advance a grass roots approach to development aid. Our submission recognises the major impediments that have reduced the effect of official assistance in the past. While we write primarily in the context of Papua New Guinea, we believe our approach is also relevant to several other emerging South Pacific nations.

2.CONSTRAINTS ON SMALL BUSINESS

Small and medium sized businesses are the vehicles by which most rural Papua New Guineans will be able to improve their standard of living. This first section identifies restraints on commerce.

2.1 Cultural

Despite the obvious importance of small business in broader social and economic advancement, there are a number of cultural characteristics that impede its development and in general have not been properly considered in encouraging small business development. Two of the most significant that become apparent during the slow evolution of these societies from subsistence agriculture, are a conservatism discouraging innovation and a social system with its focus tribes and clans rather than individuals or nations. Most of the constraints experienced in small business development are rooted in these characteristics.

For example conservatism is manifest in a strong resistance to change when imposed from above and from outside the society. Unfortunately social norms that evolved to control village life may become problems when extended to behaviour in a business or a national context. The expression “PNG way” is an often heard for inappropriate, even corrupt, behaviour in these contexts.

The obligations of individuals to the clan and tribe rather than to the individual or nation are apparent in the favoritism extended by indigenous managers to clan members in employment and the diversion of assets to clan members. These cultural forces will not be extinguished until there is a general acceptance that everyone is better off when organisations are managed to maximise operational efficiency rather than to benefit clansmen.

Still another set of problems is associated with resource and land ownership. Here lack of defined and documented ownership leads to inefficient resource use and conflict over who should reap the benefits. However, progress has been made and in some areas documented individual ownership appears to be quietly gaining ground among smallholders. In other areas the development of systems such as lease, lease-back are providing security for foreign agricultural developers in situations where individual ownership rights either do not exist or are too complex to be readily documented.

A consequence of customary tenure under which all land is held (except the 3% that has been alienated by the state) is the difficulty of establishing ownership. In the case of forest resources, which are still strongly held by clans or sub-clans, the government attempts to identify the resource owners, signs them up through Incorporated Land Groups (ILGs), and consolidates these to form logging concessions.

Where foreign agricultural developers, for example palm oil companies, wish to establish or extend crops in forested areas, land owners are identified by the company and ILGs are again the vehicle for development through lease, lease-back arrangements between the ILGs and the companies.

ILGs have also become the vehicle for the distribution of mining and oil and gas royalties to landowners. While Lea (2002) suggests that there are serious defects in the operations of these ILGs, in that they deliver inefficient and inequitable outcomes, this is because the land ownership identification has not gone hand in hand with the ILG formation as it has in the case of lease, lease-back in the palm oil industry.

The vehicle of lease, lease-back has enabled over 50,000 hectares to be brought under oil palm in the country. While the process is one of many steps littered with bureaucratic hurdles, it is nevertheless the only means by which foreign agricultural developers and customary owners of forest can do business (Oliver, 2002).

In the cocoa and coffee industries smallholders dominate. In the absence of title to land, smallholders usually establish use rights over the trees they plant and tend, and *de facto* control of the land. The smallholders nevertheless lack the security associated with formalised and inalienable title. Such security is a necessary incentive for the optimum management of land and crops.

As well as being a barrier to development of individual property rights, cultural influences also bear heavily on the ability of small businesses to save and invest. Success in business in PNG is more often associated with ability to distribute largesse and the meeting or creating of obligations, rather than with the ability to reinvest profits for business growth.

2.2 Poor legal enforcement of transactions

Another major impediment to business development is the failure of parties to business agreements to meet their obligations. Payment for goods or services rendered is by no means assured. This uncertainty results from the failure of the legal system to prosecute the perpetrators of fraud and theft. The government has failed to prosecute blatant fraud by very prominent members of PNG society. This failure sends signals down to small business that this errant behaviour is acceptable, and Pitts (2001) emphasises the importance of this failure in the context of a worsening trend in crime and corruption.

The lack of business culture is very evident in the banking system. There is a general tardiness in repayment of loans. The Rural Development Bank is so heavily burdened with non-performing loans that it has virtually ceased lending in the rural sector. Instead the bank is forced to concentrate most of its effort into trying to recoup outstanding debts (Hunt with Eko, 2001). Where registered land title is absent, mortgagee sales (by banks) to recoup the bad debts are not possible. And even where alienated land is subject to formal mortgage, such as

in the case of coffee plantations, sale of the land by banks has not been possible because of lack of perceived future security by prospective buyers (Hunt with Eko, 2001).

However, there are several inhibitors of the role of credit in additions to a lack of business culture. These include the lack of business management skills on behalf of borrowers, political interference in loan approvals by banks, and poor evaluation by lending institutions of the ability of borrowers to repay.

2.3 Expensive credit

Small business face very high interest rates on bank or hire purchase loans. The high interest rates are a function of government monetary policy and of the high risk to lenders.

Small-scale forestry provides an example of the difficulty faced by small business borrowers. Because security in the form of real estate or land is usually absent, the most common source of credit for plant and equipment is hire purchase, requiring flat monthly repayments for three years. (Other commercial banks do not lend against equipment for small-scale timber production because of high rates of repayment default.) The generation of sufficient business margins to repay the loan in every month for three years is a tall order, given the production and marketing uncertainties associated with such small-scale timber enterprises (Hunt, 2002b).

2.4 Resource appropriation by government

A major inhibition to business development is the PNG government's policy towards forest resources. Customary ownership of land and therefore of forest is recognised in PNG's constitution, yet the government effectively appropriates forest resources and most of the resource rents. It bundles the forest resources into Forest Management Agreement areas that are allocated to logging companies. It then appropriates most of the proceeds of log export sales through a log export tax. The landowners presently receive only about 12% of log export sale value (Hunt, 2002a, Figure 1.1:9).

Stocker (2002) argues that exploitation should be in the hands of the landowners, who would do business directly with parties who wish to exploit or conserve their forest. In this way landowners would be forced to make their own business decisions rather than being passive recipients of forest royalties. While it can be argued that it is likely that landowners will be disadvantaged in dealings with logging companies and other exploiters, the forest owners could hardly be worse off than they are now. Moreover, the efficiency with which the government invests the logging tax proceeds leaves a lot to be desired. Apart from thrusting landowners into business, an additional advantage of Stocker's proposal is that the endemic corruption in government would be reduced, given that this

corruption is an inevitable outcome of the government's control over the allocation of forest resources.

2.5 Lack of business management skills

Obvious to any person familiar with the conduct of business or the control of government financial operations in Australia or any western country, is the dearth of business and basic accounting skills among managers in PNG.

This lack of skills affects every facet of organisation. The inability to exercise financial controls prevents government agencies from operating – it is common for phones to be disconnected because departments have not paid their Telikom bills; evictions for non-payment of rent are also common.

Larger business in PNG perform because the maintenance of cash flow is fundamental to survival. Such businesses are usually run by expatriates or PNG citizens who are descended from immigrants possessing a strong business culture.

3. WHERE AUSTRALIAN AID CAN MAKE A DIFFERENCE

3.1 Land tenure research

Given the fact that the property rights issue is of such importance to the development of small business and private enterprise generally in PNG, much more needs to be done in the provision of information on how property rights can be strengthened. In particular, research needs to be focussed on the evolution of individual rights and ownership from group ownership.

In Section 1, above, it was emphasised that lease, lease-back is the only method by which a foreign agricultural developer and landowners can come together for their mutual benefit. However, the process of lease, lease-back, which is set out in detail by Oliver (2002), is time consuming, administratively tortuous and requires investment by the developer in consultants who are versed in genealogy and familiar with the bureaucratic minefield that is the Lands Department *cum* land legislation.

Something that does not appear to have been well documented is the progress that has been made in land titling and registration by individual coffee growers in Western Highlands Province. Over 2000 coffee smallholders now have titled to individual holdings in the Western Highlands Province (Hunt and Eko, 2001: Appendix 1, p. 2). While this may be the only scheme of its kind in PNG, there are no apparent impediments to other provinces adopting the same policy. The WHP government supported the scheme financially in the early 1990s but since then the processing of applications has been hampered by lack of funds. The mechanism for land survey, registration and titling is set out in Annex 1. (Also in Annex 1 is a description of the tenure problems of many plantations that hold leases on alienated land, and a scenario of the devolution of plantations to smallholdings.)

3.2 Institutional strengthening in land registration

As a corollary to research on land tenure it is recommended that the Australian government investigate the feasibility of providing assistance to the Lands and Physical Planning Department and to provincial governments to strengthen administrative capacity to carry out survey, titling and registration for smallholders. Most new interest may come from the coffee growing province of Eastern Highlands but demand in other provinces could also be sufficient to warrant the introduction of administrative arrangements in provincial capitals for titling, including for smallholders other than coffee growers.

Past attempts by the World Bank to progress land reform in PNG failed dismally because policy was misinterpreted by the populace as leading to dispossession. It cannot be overemphasised that the issue of land tenure is an emotive one in PNG. Any aid projects in this area must work unobtrusively through existing government institutions and great care needs to be taken to allay fears by describing the aims and benefits of such a project, working with central and

provincial governments, and providing a more appropriate project title than “land mobilisation”.

3.3 Business management training

In our view, business management training should be the major thrust of tied Australian aid. It should focus on getting a much higher proportion of the population into small businesses, while not ignoring the improvement of medium sized enterprises. Larger businesses do not require external support by way of aid. (However, the withdrawal of external barriers to exports could provide stimulus to them and indeed the whole economy.)

The PNG Incentive Fund is an Australian current programme that assists proven businesses or entrepreneurs to develop and expand enterprises. But by its very nature it does nothing to increase the number of small business.

Much of the assistance in management training needs to be provided at a very basic level. In PNG, people at the village level have a very poor understanding of the processes involved in the production of most consumer goods since they have never been in close contact with industrial processes. They have not seen cities or factories and often believe that magic is the explanation for processes beyond their experience. Concepts such as profit and loss need to be explained as do the relationships among parameters such as costs and returns, profit, savings, loan repayments and interest rates and marketing.

Government organisations are currently not particularly efficient at implementing “grassroots” aid programs and innovative delivery systems will have to be developed if Australian aid is to make a worthwhile contribution to development. Teachers with real small business experience and expertise are in short supply and successful practitioners need special incentives to leave their business which have been built over a number of years for the uncertainties of a country such as PNG.

3.4 Markets for small business production

An infrastructural initiative that could positively influence small business development is Australian government involvement in the further development of produce markets in strategically located towns. Vegetable markets, both official and unofficial already exist in most centres. This initiative is for their extension to include a range of produce. (While such market infrastructure is easily enough installed, it is often overlooked that the success of such developments depends on management by local or provincial government.) Research needs to be undertaken to confirm the potential for regional markets to enhance small business.

Given the present state of development in most of rural PNG, markets can be of considerable social as well as economic significance for they bring people together for the exchange of information and engagement in social activities as well as buying and selling produce. Markets might be built to cater for traders

with different needs and levels of sophistication. They might also incorporate information and self-help centres and be the focus for infrastructure development in the rural “catchment”.

Law and order problems will continue to be impediments to the development of rural markets. However, as emphasised above, the demand from the grass roots for more effective protection of small business needs would complement the top down approach to improving law and order.

Rural road conditions are presently a major constraints on small business. The seriousness of the situation in the case of coffee and fresh produce marketing was highlighted by Hunt (2001), which is attached as ANNEX 2. Again, grass roots pressure resulting from increased mall business activity will help stimulate improvement in the very poor performance of the government in rural road maintenance.

3.4 Counterpart funding

In mounting new initiatives in aid, Australia must give careful consideration to the requirements for the appointment of national counterpart staff to projects and for counterpart funding contributions from the PNG government. Superficially, the insistence on counterpart involvement would seem to be an excellent idea in ensuring that maximum benefit is obtained from aid programs. In practice, the secondment of suitable staff from a line department is disruptive, diverts scarce human resources and often reduces the department’s effectiveness in delivering services.

In the case of counterpart funding obligations, inadequate budget appropriations and deficient budgeting are reasons for failure. Inability to find counterpart funding has led to the delay cancellation of projects with serious economic and social consequences, for example in the areas of education and road infrastructure (Hunt *et al*, 1999; Hunt, 2001).¹

3.5 Aid conditionalities

Australian Government assistance is now all project aid, budgetary assistance having been phased out. Nevertheless, there may well be a case for reintroducing some budgetary assistance as an incentive to the PNG government to adopt good governance. Within this aid category would be included the funding of the relevant departments and agencies to enable investigations into fraud and the bringing of perpetrators to justice. The Cairns Conservatory case is an outstanding example of government failure to follow through after it commissioned definitive Auditor General and Ombudsman reports. This failure can be perceived as undermining subsequent inquiries, such as that into the

¹ AusAID is less likely to insist upon counterpart funding than other aid providers, such as ADB and the World Bank, but its projects are often demanding with respect to counterpart staffing (Hunt *et al*, 1999).

National Provident Fund and other superannuation funds. Royal Commissions and high level inquiries themselves have no deterrent effect without subsequent prosecutions. The big question is whether the NPF and other sauperannuation fund inquiries will deliver any more concrete results than the investigations into the Cairns Conservatory purchase.

Budget support grants could also be used as incentives to ensure that government actions do not erode reforms developed as a result of “grassroots” initiatives.

3.5 Resource appropriation

The notion that resource owners must be protected from themselves by governments – who will make wise use of the resources on their behalf – still has currency in PNG. This philosophy has led to the virtual dispossession of landowners in the case of forest resources. If the goal of aid is to foster the development of business at grass roots level, then the ability of the resource owners to deal in their resources on their own behalf should not be compromised by Australian aid.

Box 1 summarises an alternative proposal for forest allocation.

Box 1: Landowners to Allocate their Forest

Landowners to Allocate their Forest To:

- Logging, and or
- Conservation, and or
- Agricultural development

Allocation by Landowners to Logging:

- Resource owners to manage their forests subject to a forest management plan certified to conform with the state's environmental regulations.
- Resource owners to deal directly with loggers and log buyers on a simple contract basis. The Incorporated Land Group being the most appropriate and accessible vehicle through which landowners would do business. Since the state would have an interest in the financial transaction associated with the contract, it would be registered with the state.
- Landowners to be protected from unfair dealing by strengthened and new legislation.
- An independent arbiter to determine either the f.o.b. or mill door (domestic processing) value of the logs. The contract between the resource owner and the logger would specify the proportion of this value to be paid to the resource owner.
- The value of the logs, as verified by the independent arbiter, to be the basis of a log tax levied on the harvester.

Source: Hunt (2002: Box 2.2:36).

4. ANNEXES

4.1 Annex 1

C. Hunt with B. Eko (2001), *Study of Coffee Managed Sector: Final report for the Coffee Industry Corporation*, National Research Institute, Port Moresby: Appendix 2.

“In the case of coffee plantations the land is usually ‘alienated’ or state land, under long lease and it is possible for the plantations owners to sell the lease. Also the land can be taken as security by lenders.

In the case of blocks, the traditional owners may or may not have surveyed, registered, titled land.

A large proportion of plantations would appear to be non-viable financially. Where banks have a mortgage, and the loan is not being serviced, it is unlikely that mortgagee sales (i.e. by the bank) of plantations will eventuate because of a lack of cooperation by the owners and a lack of buyers. Meanwhile, the banks, even for items such as fertiliser, appear to have become extremely conservative in advancing credit.

We see a steady deterioration in the viability of plantations and in some cases their abandonment by the owners or managers and the subsequent agitation by the shareholders and original customary landowners to assume rights to the coffee on the plantations.

Many blocks are in the same position of being financially unviable. However, the difference is that the land is not state land but simply customary land bundled together. Blocks may or may not have been surveyed and registered with the Lands Department – however, even if they have been the owners specified would probably be the customary owners. Because the RDB and commercial banks have no real security over blocks there is little they can do to recover outstanding loans, except to try to manage the blocks and ensure some set aside of income for loan servicing.

Because blocks are made up of contributions of customary land, the tendency is for the blocks to fragment and for the customary owners to assume occupation and management of portions of the block.

In the case of the unviable plantations a way forward may be for the plantations to lease out the coffee areas to clans or individuals. However, the recovery of lease payments may prove to be very difficult. And it may be necessary for banks to restructure the plantation debt to enable this to take place.

In other cases it may be preferable for individual landowners to lease or purchase portions of the plantation. In the case of leases by smallholders it would be necessary for individual leases to be surveyed.

In the cases where landowners are to purchase or acquire portions of a plantation, it is recommended that the landowners have the allotment surveyed and apply to the Lands Department for land registration and title. The plantation may assist in this exercise.

In the case of blocks, the transition to individual management and ownership is already supported by the RDB in principal. The benefits of dealing with one owner in matters of credit are emphasised by field staff. The way forward for blocks that are tending to disintegrate is for the customary owners to have portions surveyed and to apply for registration and title on the portion. If ownership is disputed, however, registration cannot proceed.

The method of transition to new management and or ownership patterns will depend on individual circumstances.

The acquisition of title to land has several benefits, including:

- ownership is unlikely to come under dispute in the future.
- the title-holder can transfer the land to his or her heirs.
- the risk to the owner is taken out of investing capital and managerial effort in the land, leading to higher production.

While lending to smallholders becomes more attractive to banks where there is title to the land, the extra security offered by these titled holdings would not be of significance given that banks would be unable to force sales of smallholdings to recover loans.

In the Western Highlands 2,000 landowners have already received title to their land. Extra resources will be required to facilitate a predicted increase in demand for land surveying, registration and entitlement, particularly in the Eastern and Western Highlands. Presently the Mt Hagen Lands office is underfunded and does not have a vehicle at its disposal to inspect applicants' land.

1.2. Land survey, registration and title

The description of the process that follows has been provided by Paul Kelloway of the Mt Hagen office of the Department of Lands and Physical Planning. The same basic procedure would be followed in other provinces.

Survey

The cost of land survey by surveyors registered with the Department is a minimum of K500 but could well be around K2,000 for a smallholder holding, depending on size of land, whether survey pegs exist and location.²

² The WHP's free survey scheme ceased in the early 1990s.

The surveyor's plan and field book is lodged with the Department's provincial office with a fee of K10.00 (the urban land lodgement fee is K25.00).

Registration

The survey is checked by the Department's provincial examining surveyor.

Four plan prints are prepared after payment of K24.00 by the client for distribution to:

1. the Surveyor General,
2. the Regional Surveyor,
3. the client,
4. the provincial Lands office.

The Regional Surveyor, in this case at Goroka, registers the Survey plan.

Title

A portion number is allotted to the registered land by the Provincial Office. The numbered plan is forwarded to the Customary Land Officer in the Provincial Office, who reports on what is on the land and, if there are no ownership disputes that would prevent the issue of a title, recommends that a title be issued.³

The Lands and Physical Planning head office in Port Moresby prepares the documentation for the title, which is then signed by the Minister and gazetted."

³ In practice disputes are rare.

4.2 Annex 2

Post Courier

Focus

Wednesday 31st October, 2001

Roads to ruin

In the absence of a large works program, roads will continue to deteriorate, economic growth will be reduced and poverty will be perpetuated.

By Colin Hunt

During my recent travels in the Highlands region, I became intimately acquainted with the potholes (now chasms) on the Highlands Highway (HH) and the humps and holes of the national routes and feeder roads.

The HH is vital, as it is the main lifeline for two million landlocked people, and the main economic artery of the nation.

My prime task was to assess the coffee industry — the main household income earner — and discuss the major impediments to the industry with growers, processors, marketers, coffee inspectors, and bankers.

The roads are much more than coffee arteries, as they enable people to travel to school or work, or seek medical attention.

By international standards, income, health and education levels in the Highlands indicate high levels of poverty, to which the poor condition of the roads contributes.

The HH from Kassam Pass to Kainantu is full of craters which cause considerable damage to vehicles, while many of the feeder roads in to Kainantu are trafficable only in 4WD vehicles.

West from Kainantu is the Okapa District which comprises 62,000 people, many of whom are smallholder coffee growers.

Because of the poor condition of the Kainantu-Okapa road, the district has been virtually cut off for two years (the Nupuru loop road has been closed because of landslides and landowner claims), while the Bena roads have not been maintained for many years. Kainantu-Goroka is marginally better, while Goroka-Daulo has steep sections which are impassable to heavy transport during the wet.

In the coffee areas of Dei Council and Baiyer River, in Western Highlands, road systems can be impassable to PMVs, because of collapsed bridges and bad potholing.

Roads are also a barrier to marketing in areas where the climate is too severe for coffee, and vegetables are the main cash crop, for example, along the Tambul Road. No regular maintenance has been carried out here for the past seven years.

Coffee buyers are reluctant to drive to some districts because of poor road conditions and lawlessness. Consequently, growers are forced to take their

parchment to the factory, or store it for long periods, which lowers its quality. All coffee is exported through Lae, as are all vegetables destined for Port Moresby markets. To get to Lae, all container trucks must traverse the HH. The high cost of hiring refrigerated containers to deliver perishable vegetables to the Port Moresby supermarkets makes it difficult for growers to control prices and compete against imported produce.

The cost of damage to vehicles and containers is passed on to the exporters and wholesalers, and they pass it on to the growers, through reduced prices.

Lowered prices, plus the difficulties of marketing coffee, constitute great disincentives to smallholder coffee growers, who are 80 per cent of the industry. The bad road conditions are primarily the result of lack of maintenance, which is aggravated by poor adherence to design standards.

These problems are the result of shortfalls in construction and maintenance funds, reductions in staff training and plant, and poor construction and contracting practices.

Disbursements to the Department of Works for road maintenance were K14 million in 2000 and K16 million in 2001, compared with requirements of K122 million and K141 million, respectively.

In October 1999, the Asian Development Bank approved a loan to upgrade 935km and rehabilitate 776km of Highlands feeder roads, excluding the HH, which is the responsibility of other donors.

The loan was \$US115 million, with the PNG Government needing to contribute some K26 million per year for six years.

The project would have brought more efficient use of Highlands resources.

Faster, more reliable and cheaper travel would enhance the mobility of the population, rural tradestores would have greater access to goods from wholesalers and lower freight charges would enhance regional markets.

Women would expect to benefit from the improved quality of fruit and vegetables at the markets, as would urban consumers.

Another substantial cash benefit from the ADB project to local women's and youth groups would be through their engagement in vegetation control and drain clearance in each sub-project. Local labour and hire usually amount to 20 per cent of total cost – about K15,000 per kilometre of road.

At present, 80 to 90 per cent of the Highlands population have had no education, and illiteracy rates range between 70 per cent in Enga, and 76 per cent in Western Highlands, which are the highest in PNG.

The number of children not enrolled in school also tends to be highest in the Highlands region.

Other major social indicators in the Highlands that would be alleviated by better roads are the high maternal death rates at childbirth and very poor access to clean drinking water.

To get this project under way, the National Government had to contribute its agreed counterpart funding. However, it has failed to do this, and the project has stalled.

Meanwhile, the roads have deteriorated even further.

For the project to start next year — two years later, the Government will need to appropriate K26 million to the project in the 2002 Budget, and disburse it in 2002.

However, the chances of this happening are slim, given that the Government appropriated a total of only K16 million in 2001, for all road maintenance in the country (less than K1 million per province).

Without a large works program, the country's roads will continue to deteriorate, pushing up the future cost of upgrading and maintenance.

The saga of road maintenance deepened in March 2001 when the Minister for Works announced the "new policy initiative on the upgrading and maintenance of roads".

The National Government was determined to "revive and revitalise all road infrastructure", but the new policy meant that there would be no direct commitment of funds to road maintenance.

The Government would confine its commitment to "topping up" funds for roads already pledged by provincial governments and Members of Parliament from their District Support Grants.

This policy has flaws because road maintenance would be patchy, given the uneven commitment by provincial governments and members, and the inevitable politicisation of the process of choosing priority roads.

The politicisation of such maintenance has already occurred.

At the local level, politicians have benefited from such funding by buying earthmoving equipment and setting up earthmoving companies, ensuring that funds are kept "in house".

Unfortunately, these companies are usually staffed by untrained operators who, according to the Eastern Highlands Chamber of Commerce, "make a mess and do nothing to improve the roads".

There is only one qualified earthmoving company left in Eastern Highlands. The new policy did not state that the Government's ability to "top up the regional and politicians' commitments" was underwritten by an Australian government grant. AusAID objected to the new policy, and in July, withdrew its funding. The minister explained to Parliament that, as a result, "we are stuck".

However, AusAID has committed funds in other areas and has already begun a K6 million upgrading of the horrendous Kainantu-Kassam Pass section of the HH.

Also, it has implemented a rural bridge replacement and upgrading project.

On a positive note, tenders have been called for a project worth K9.5 million, and funded jointly by the mining industry and the Government, to help fix some of the worst sections of the HH.

The greater part of the HH upgrade is planned with World Bank loan funds.

However, how will the Government find counterpart funding of some K40 million a year to start this project in 2003, given that it has failed to activate the ADB project and that severe spending restraints will continue.

The scenario for road improvement is a very depressing one. The Government cannot find the K100 million a year that it needs to maintain the country's roads, but it is also unable to find the upfront counterpart funding that would enable it to activate the vital donor-funded projects which will correct years of neglect in the Highlands and elsewhere.

As a result, the economic potential of the Highlands remains unfulfilled and a large proportion of the population seems to be condemned to poverty for the foreseeable future.

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