Assessing performance and policy in a resource-dependent economy: the case of PNG

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PNG is one of the world’s most resource-dependent economies: in the top 10.

Average value of resource rents for 144 countries: 7.1%. Value for PNG: 29.9%. *Source: World Databank*
Structure

• Assessing performance in a resource-dependent economy.
• Assessing policy in a resource-dependent economy: lessons from international experience
• Assessing policy: applying the framework to PNG
Assessing performance in a resource-dependent economy
The more resource-dependent the economy, the worse growth is as a welfare indicator

- GDP doesn’t include the depletion (depreciation) of natural resources.
- For a resource-rich economy, economic growth can simply represent a running down of the natural asset base
  - Cf a pensioner consuming their superannuation funds.
  - What will happen when the funds/resources run out?
- A key challenge for a resource dependent economy is to replace natural resources by physical assets and human capital.
- If this happens, the economic growth will be sustainable, and the economy will become less resource-dependent.
Genuine savings

• We can measure the sustainability of a resource-dependent economy by examining its genuine savings
  - National savings (investments in physical capital)
  + Investment in human capital (education)
  - Resource depletion.

- How does PNG fare on this indicator?
PNG’s genuine savings are often negative.
Assessing policy in a resource-dependent economy: lessons from international experience
Why do some resource rich economies succeed and others fail?

• What is the difference between Norway on the one hand and Angola on the other?

• *Rents to Riches* (2011) from the World Bank argues that successful resource-rich economies have two features in common:
  
  • They can make credible long-term commitments: they are able to generate benefits for the future.
  
  • They are politically inclusive: they are able to generate benefits for all
The “Resource to Rents” story

Figure 2.6. Intertemporal Credibility and Political Inclusiveness

- nonresource-dependent
- resource-dependent
- linear prediction (all countries)
Where does PNG fit in?

Figure 2.6. Intertemporal Credibility and Political Inclusiveness
The PNG challenge

Inclusiveness

Intertemporal credibility

Papua New Guinea
Assessing policy: applying the framework to PNG

SWF
Ok Tedi/SDP
The development spending surge
Sovereign Wealth Fund

- Adopted at end of 2011 as Organic Law.
- But did not follow correct procedure, so legislation is not binding.
- Since then, no progress on implementation.
- No submission of revised bill.
- Oil Search loan uses LNG dividends intended for SWF, thus calling into question the entire SWF endeavour.
Applying the framework: SWF

Inclusiveness

SWF (up to 2012)

Papua New Guinea

Intertemporal credibility
Applying the framework: SWF cont.

Inclusiveness

SWF (up to 2012)

Papua New Guinea

SWF (post 2012)
Ok Tedi nationalization and SDP dispute

- OK Tedi was majority-owned by SDP, a Singapore-registered trust.
- But PNG Government took control, without compensation.
- PNG Government also trying to take control of SDP’s other assets.
- As a result all of SDP projects have come to a halt.
- Ok Tedi profitability and tax revenue have declined sharply.
Applying the framework: Ok Tedi and SDP

Inclusiveness

Ok Tedi/SDP dispute

Papua New Guinea

Ok Tedi/SDP dispute

Intertemporal credibility
Surge in development spending

Development spending

K billion (2012 prices)

Excl supplementary budgets and trust funds
Supplementary budgets and trust funds
The development budget is a bigger share of the budget than ever

Note: Years where there is no red line are ones where there were no supplementary or trust fund allocations
The share of development spending in PNG is very large by international standards.
High level of development spending sounds good, but ... 

• Heavy reliance on deficit financing.
• Squeezing of recurrent spending.
• Often low quality of spend: no capacity to spend so much development budget.
High fiscal deficits
There is no LNG revenue surge on the way
Squeezing of service delivery budget

Since 1999, adjusting for inflation, recurrent budget has grown on average at 3.5% a year, but development budget on average at 9.9% a year.

In 2014, no increases, e.g, for school education, or road maintenance.
Lack of capacity to spend the development budget
Applying the framework: surge in development spending

Inclusiveness

Deficit financing

Squeeze on service delivery funds and maintenance; low quality of spend

More asset investment

Papua New Guinea

More asset investment

Intertemporal credibility
Conclusion

• PNG is a very resource dependent economy.

• Growth is not a good indicator of welfare for such an economy, and the focus should also be on genuine savings, which has often been negative for PNG.

• International experience shows that turning resource rents into riches requires intertemporal credibility and development inclusiveness.

• PNG’s track record on intertemporal credibility is low, and inclusiveness remains a challenge.
Policy recommendations

• This international framework can be used to assess recent PNG policy development

• Using the framework gives rise to a number of policy recommendations:
  • Resurrection of SWF.
  • Seek compromise with SDP.
  • Limit borrowing.
  • Protect service delivery funding, and prioritize relative to development spending.
And finally, a lesson for all countries

“Successful countries owe a lot to an environment in which all ideas, good and bad, are exposed to review and vigorous debate.”

*The Growth Commission, 2008.*
Thank you

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