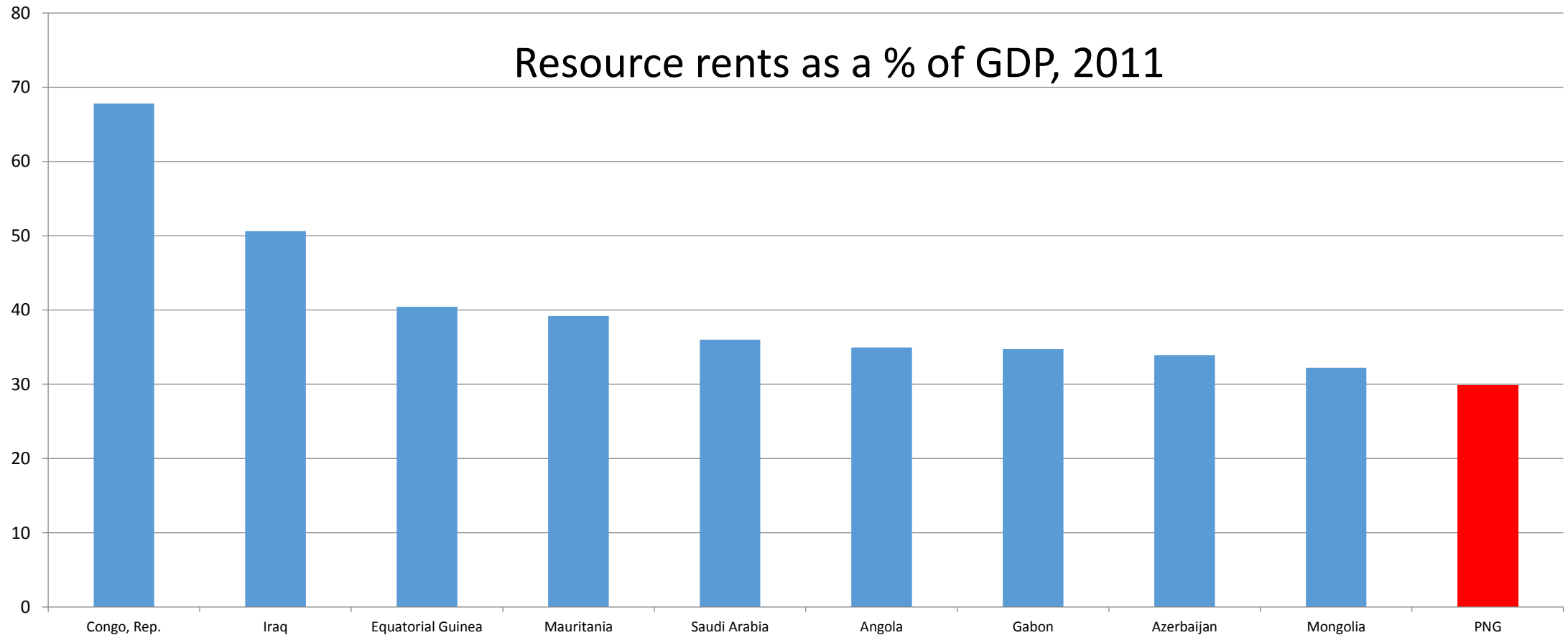


Assessing performance and policy in a resource-dependent economy: the case of PNG

Prof. Stephen Howes
Development Policy Centre
Australian National University

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

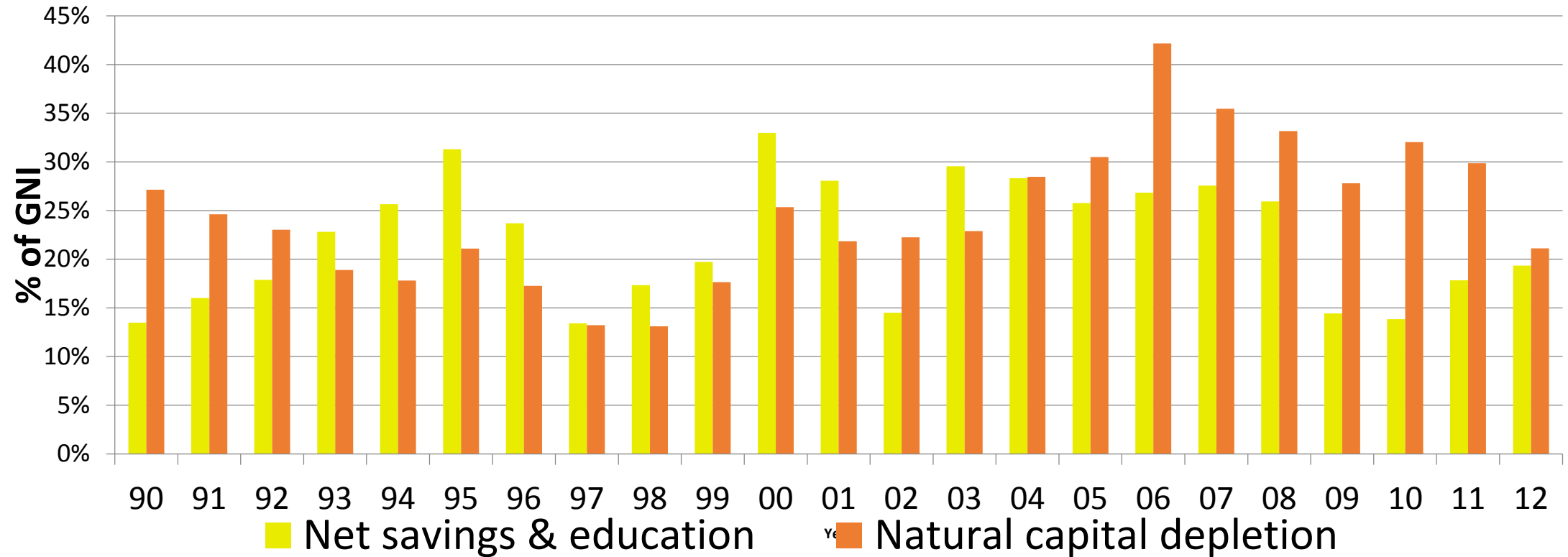
The more resource-dependent the economy, the worse growth is as a welfare indicator

- 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?

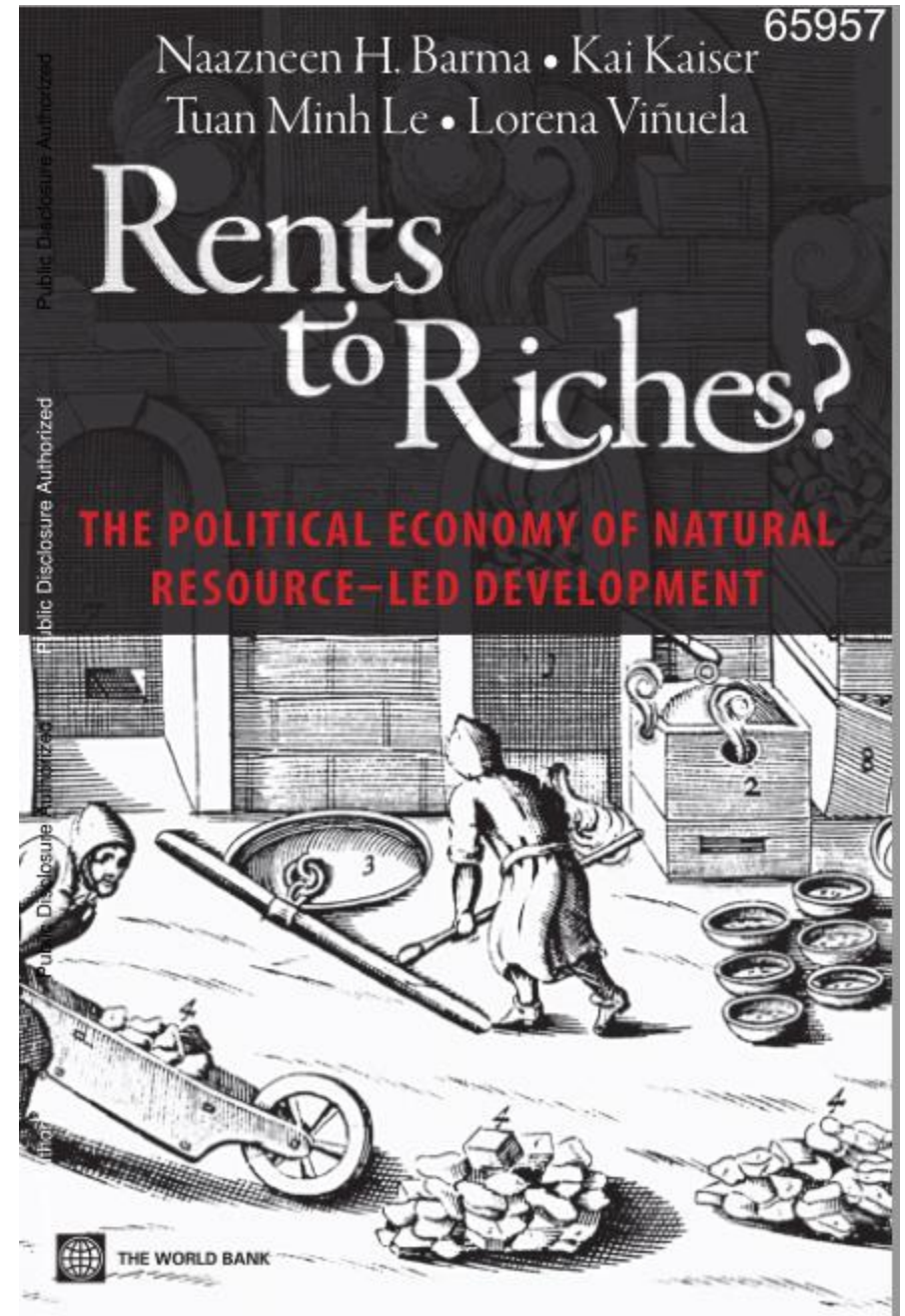
PNG's genuine savings are often negative.



Assessing policy in a resource-
dependent economy: lessons
from international experience

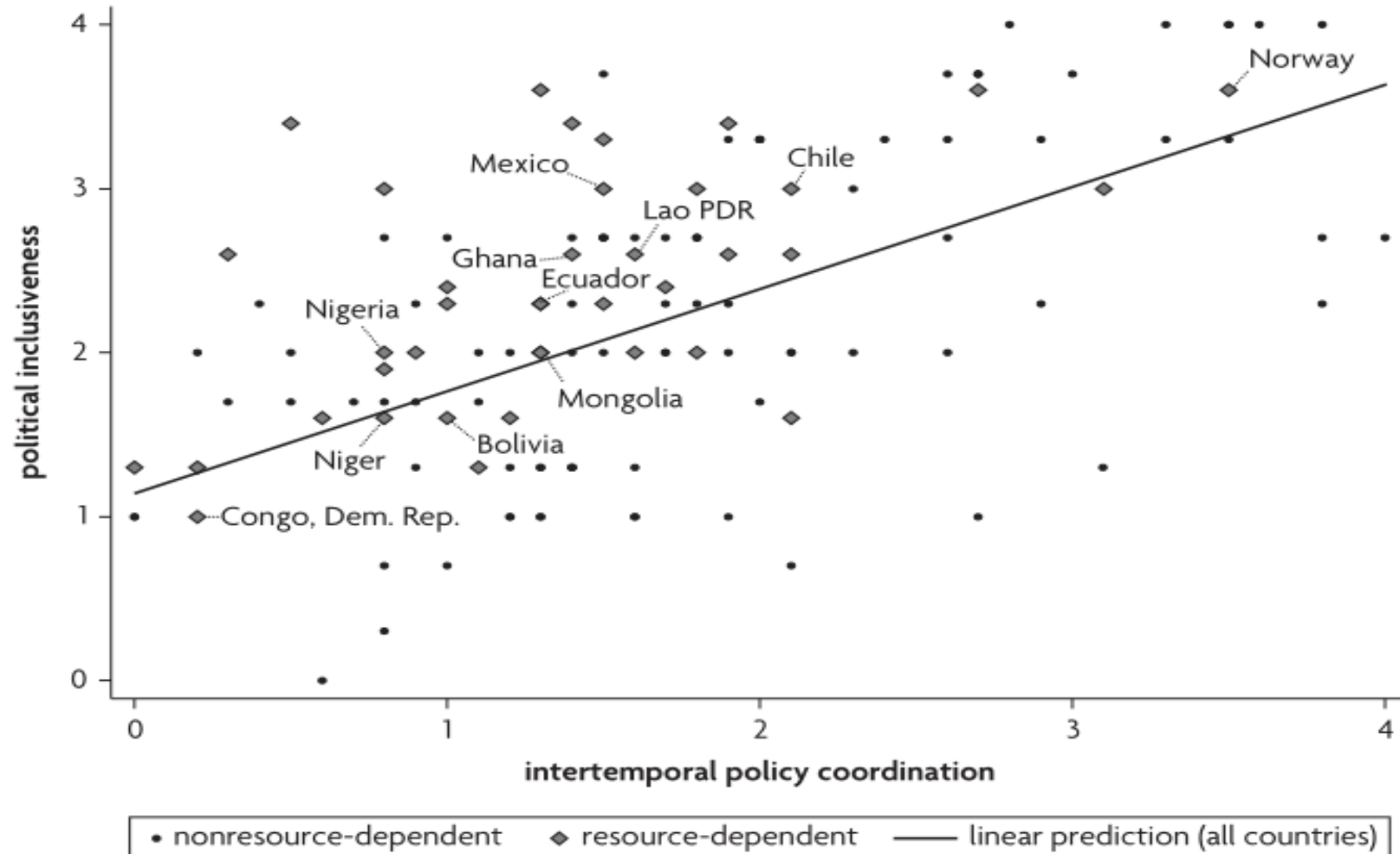
Why do some resource rich economies succeed and others fail?

- 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



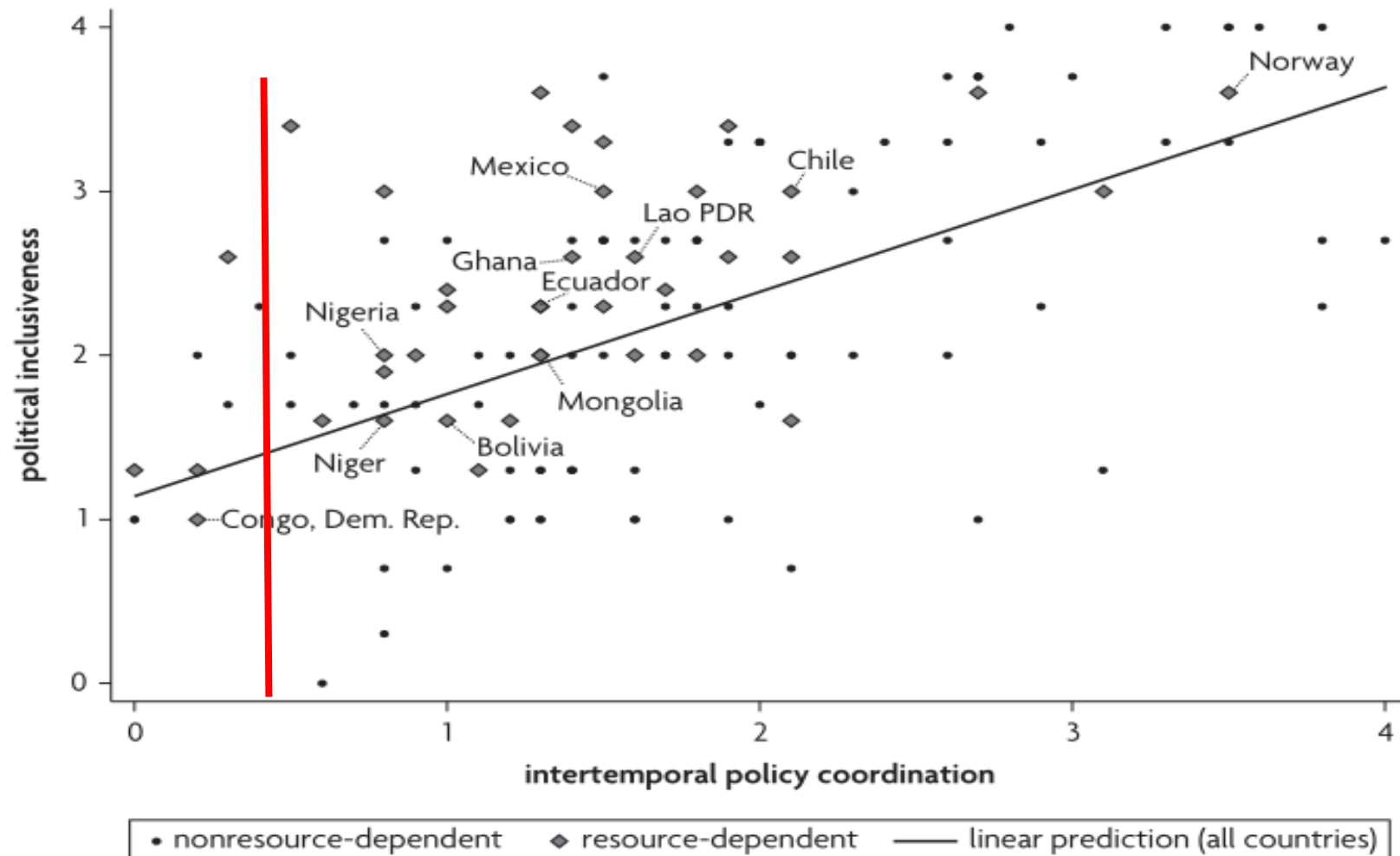
The “Resource to Rents” story

Figure 2.6. Intertemporal Credibility and Political Inclusiveness



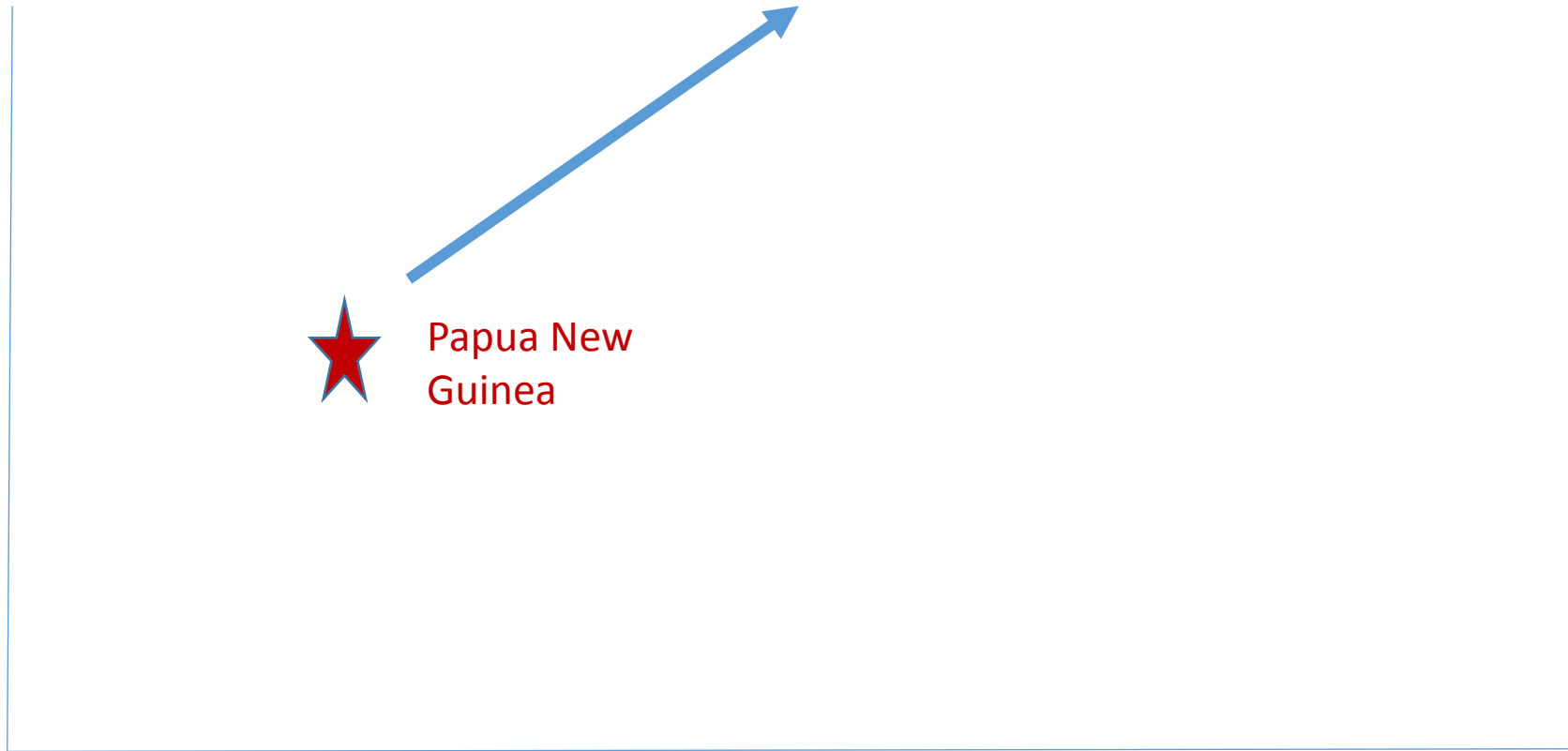
Where does PNG fit in?

Figure 2.6. Intertemporal Credibility and Political Inclusiveness



The PNG challenge

Inclusiveness



Intertemporal
credibility

Assessing policy: applying the framework to PNG

SWF

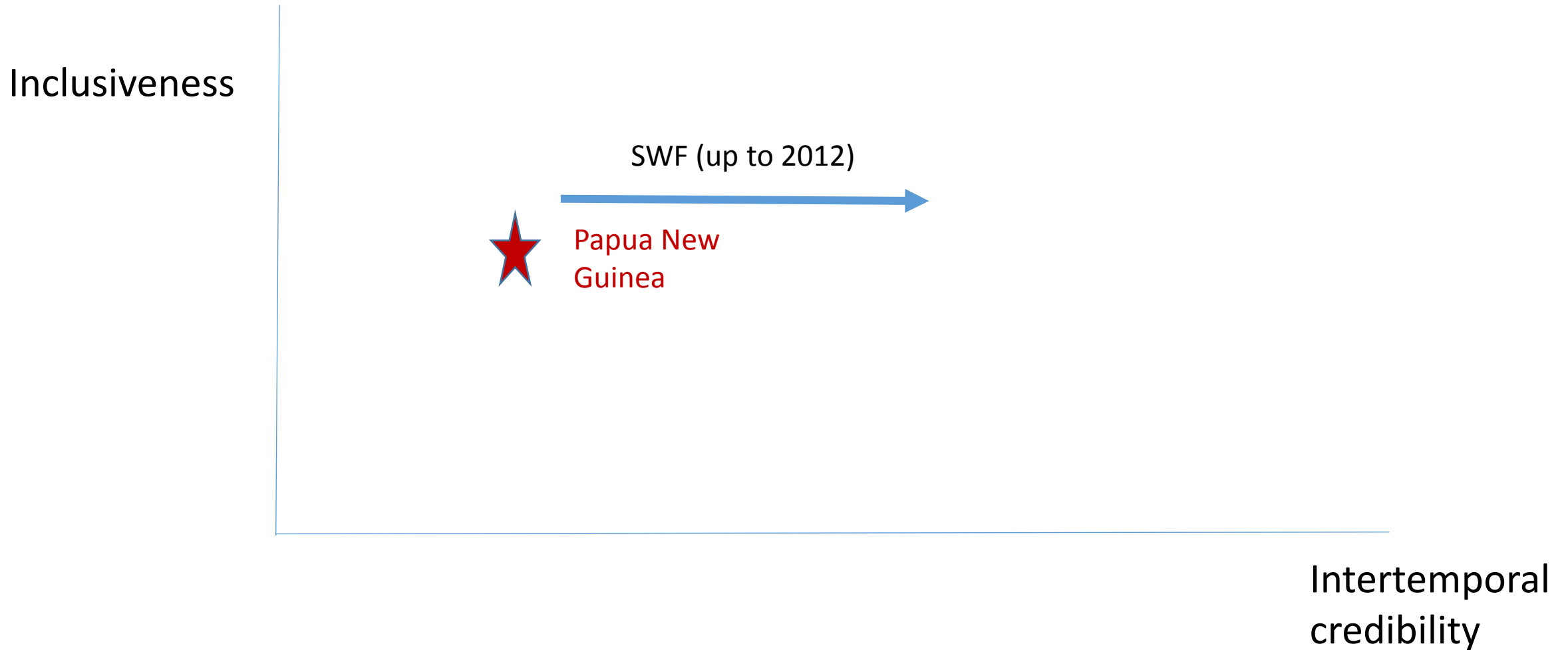
Ok Tedi/SDP

The development spending surge

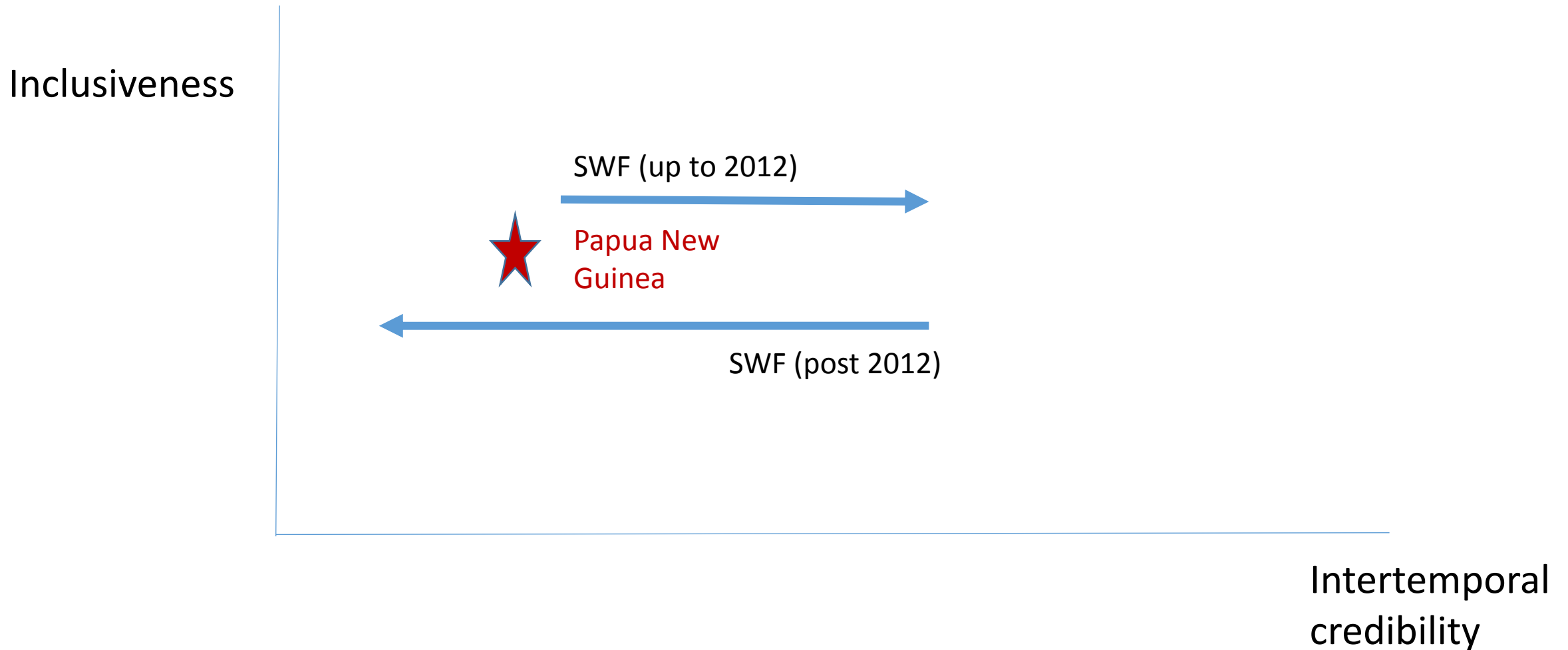
Sovereign Wealth Fund

- 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



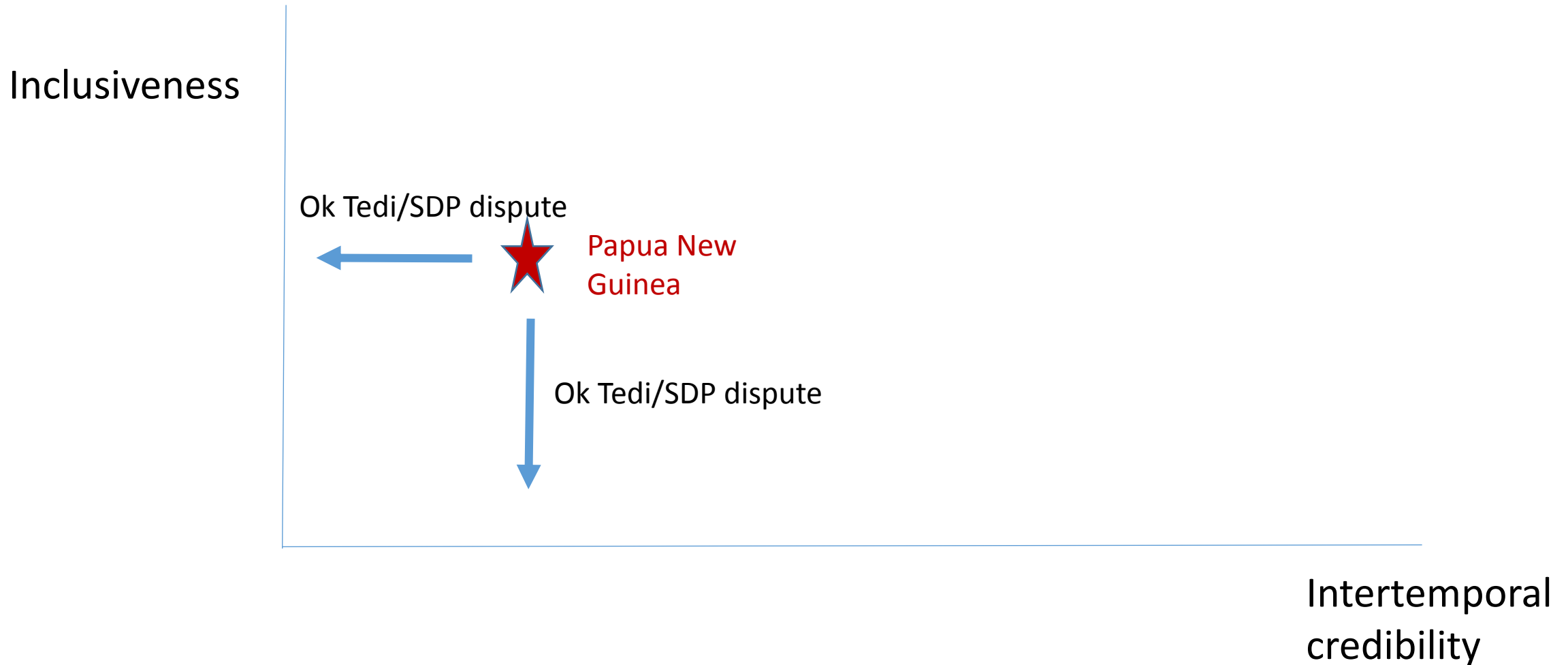
Applying the framework: SWF cont.



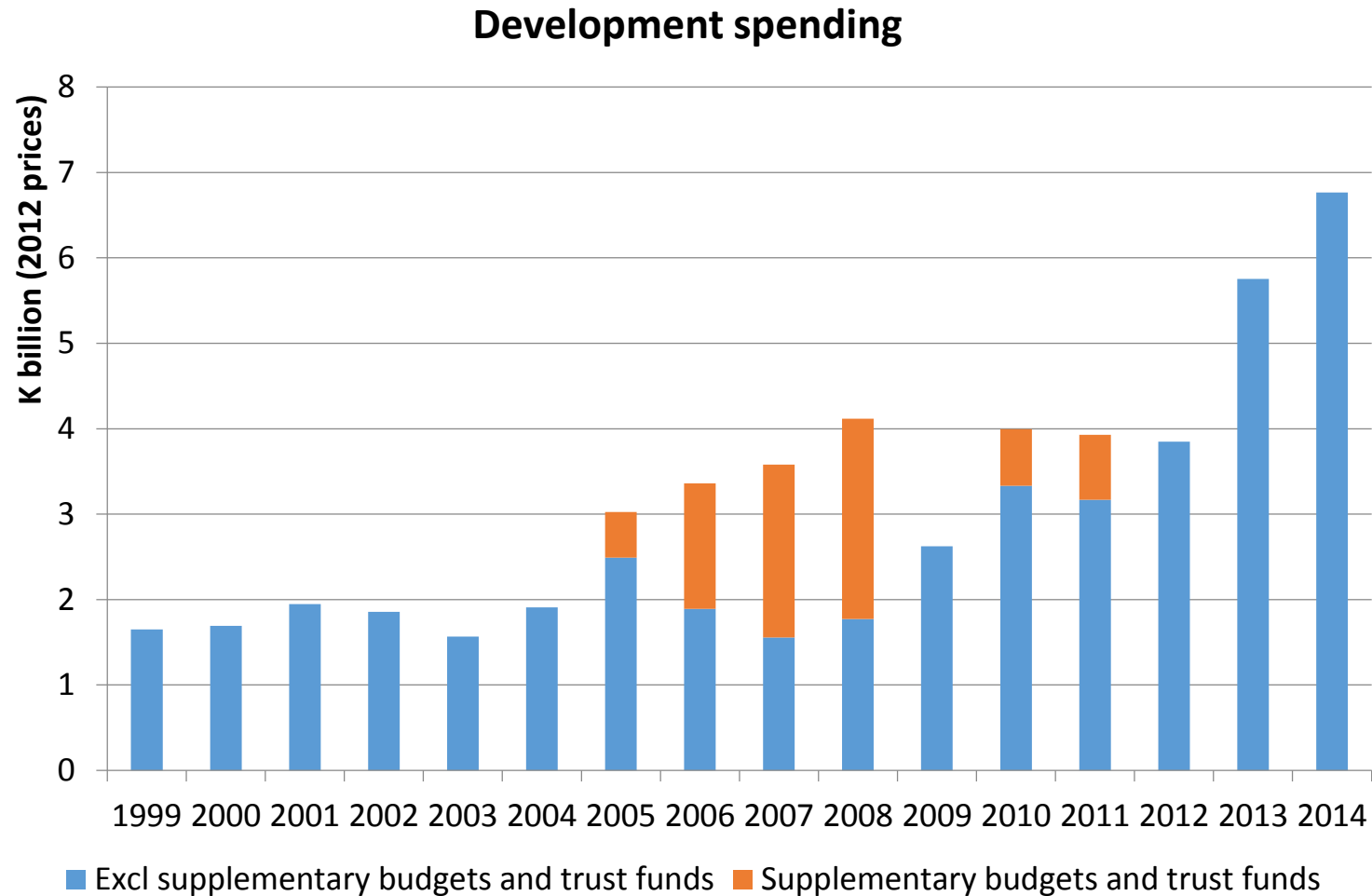
Ok Tedi nationalization and SDP dispute

- 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



Surge in development spending



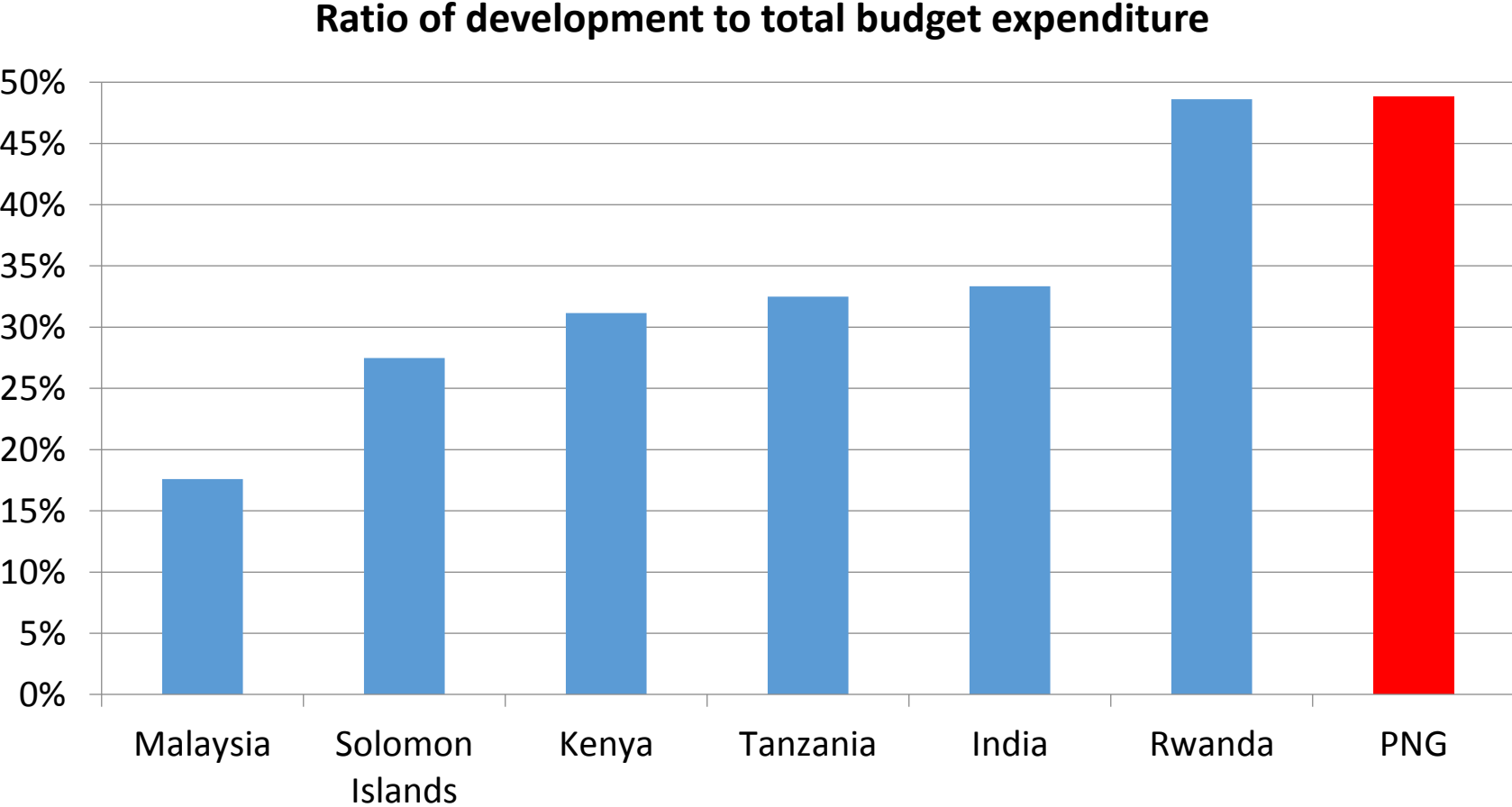
The development budget is a bigger share of the budget than ever

Ratio of development to total spending



Note: Years where there is no red line are ones where there were no supplementary or trust fund allocations

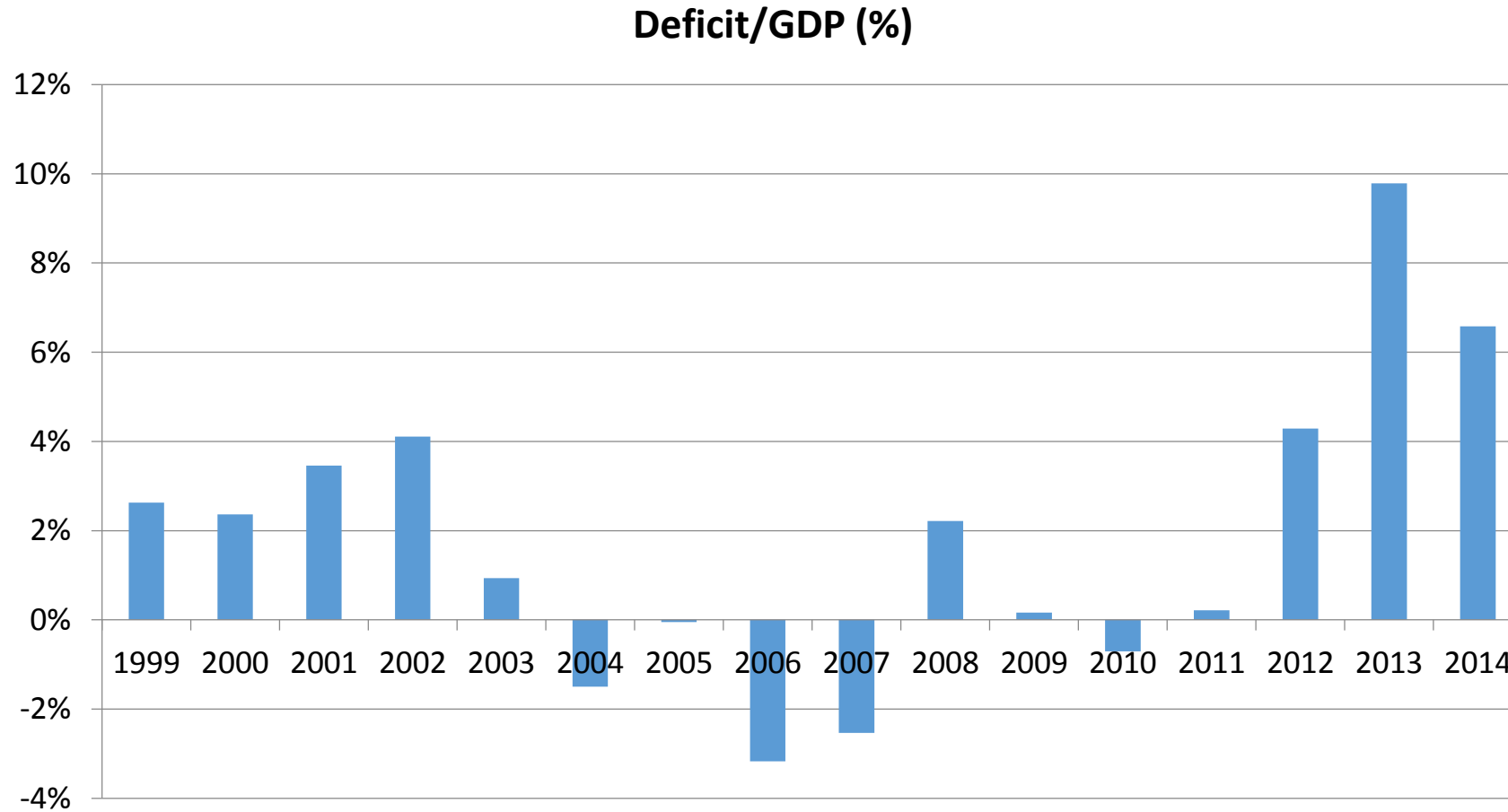
The share of development spending in PNG is very large by international standards



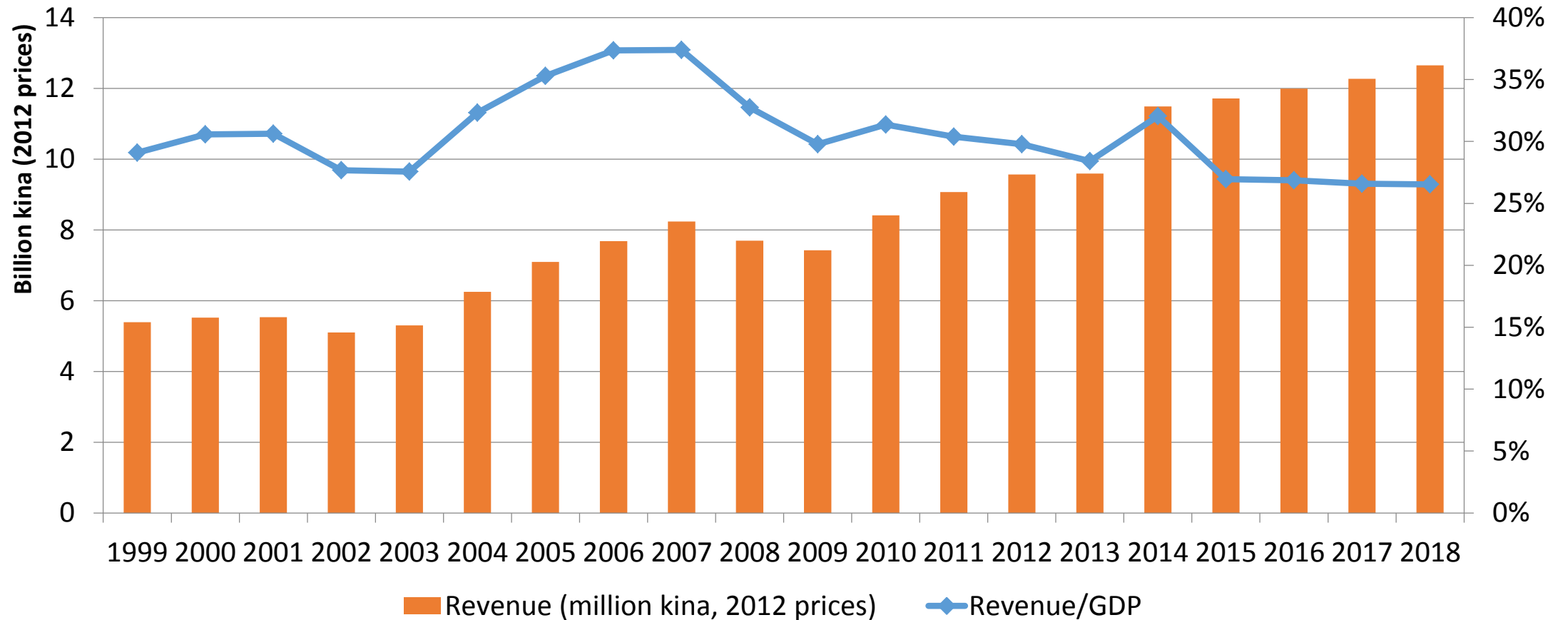
High level of development spending sounds good, but ...

- 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



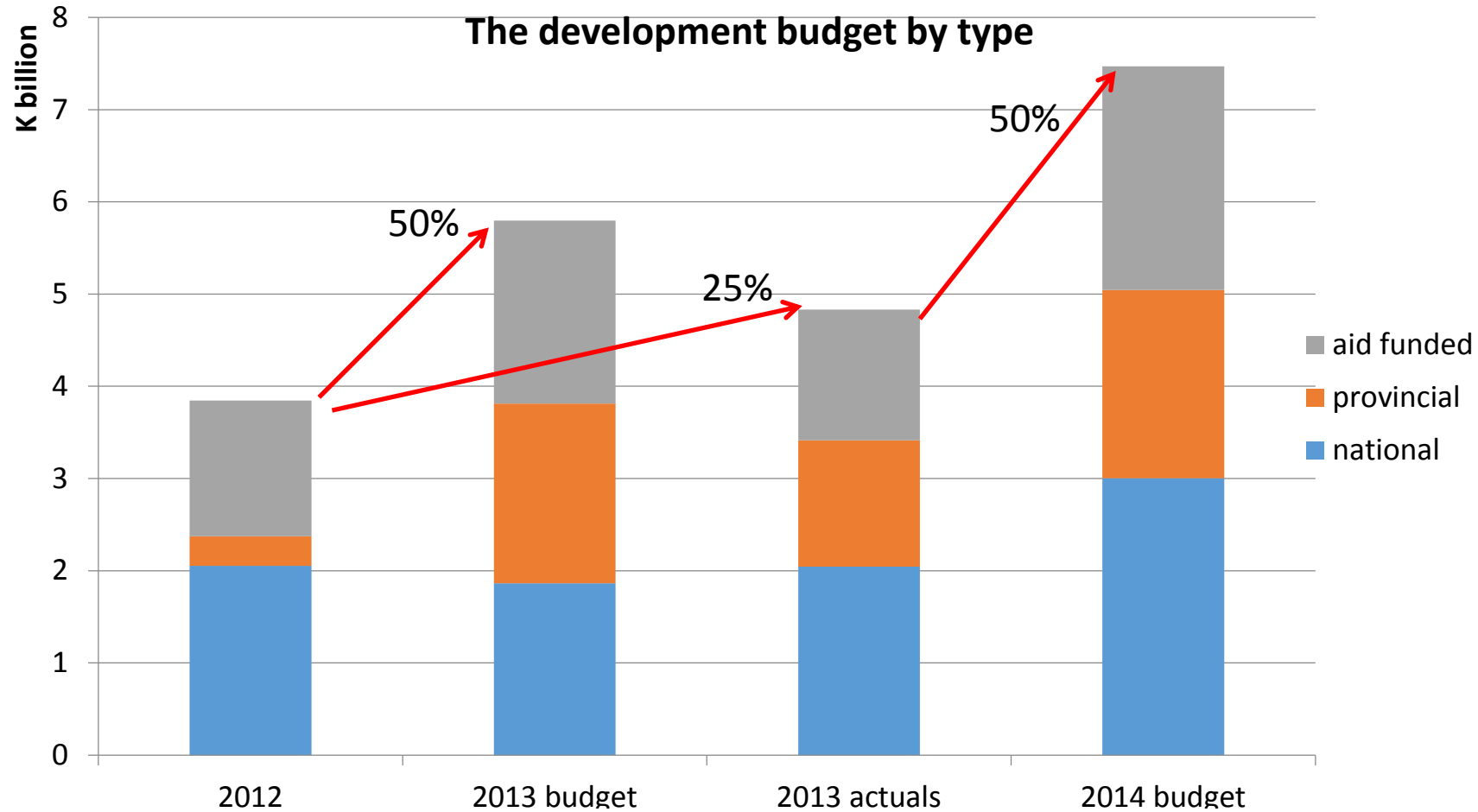
Squeezing of service delivery budget

	2013	2014	Increase	Percentage increase	Percentage increase after inflation
	K million	K million	K million	%	%
Development	5,900	7,471	1571	27%	18%
Recurrent	7,319	7,824	505	7%	-1%
Total	13,219	15,295	2076	16%	7%

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.

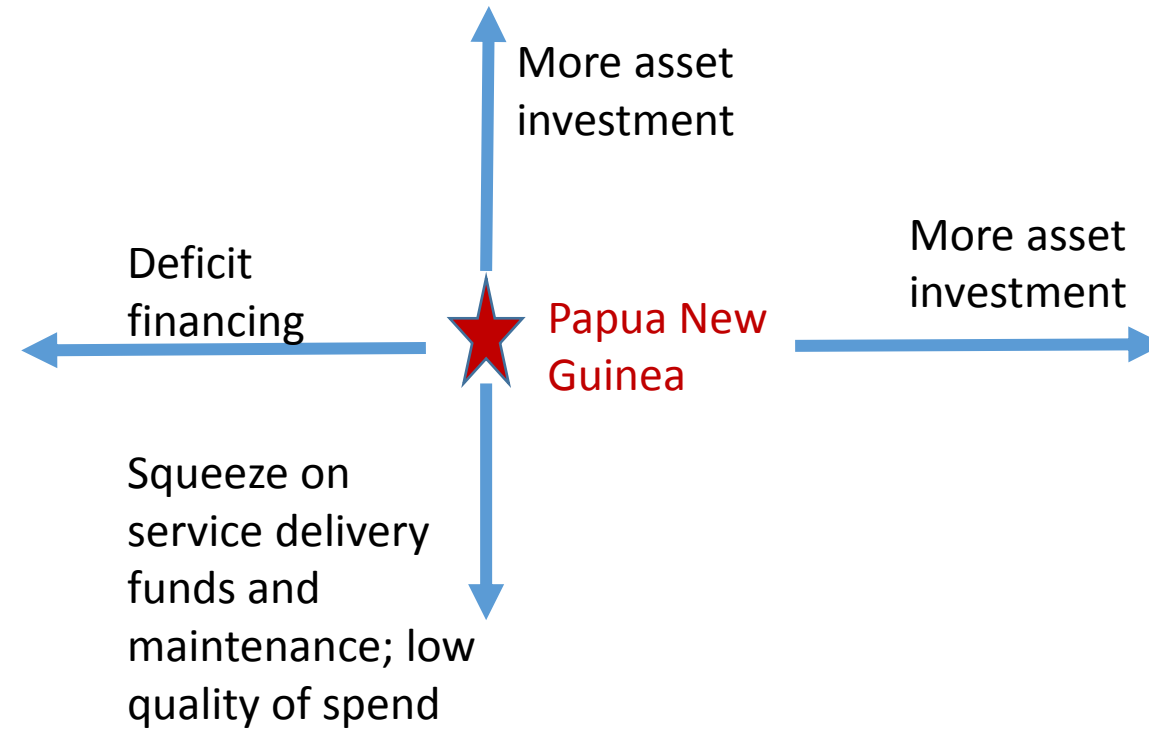
In 2014, no increases, e.g, for school education, or road maintenance.

Lack of capacity to spend the development budget



Applying the framework: surge in development spending

Inclusiveness



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

www.devpolicy.org