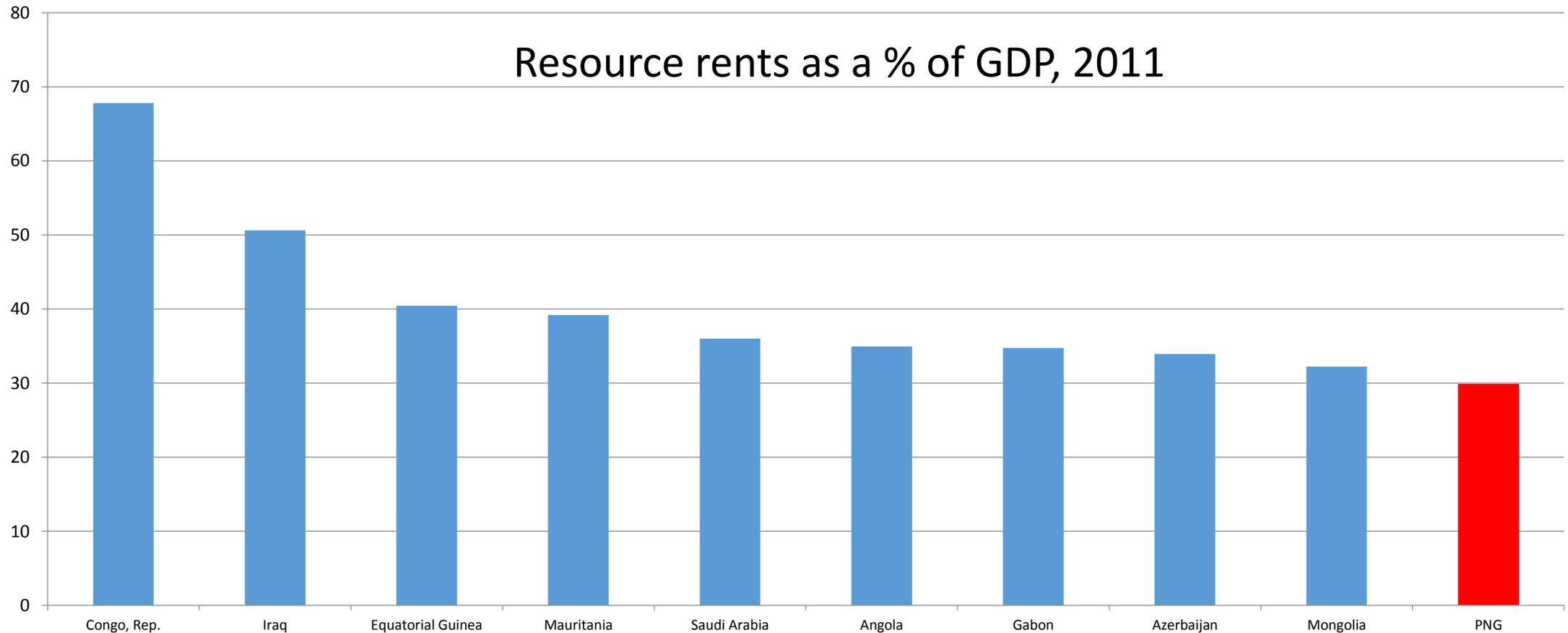


# Assessing performance and policy in a resource-dependent economy: the case of PNG

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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

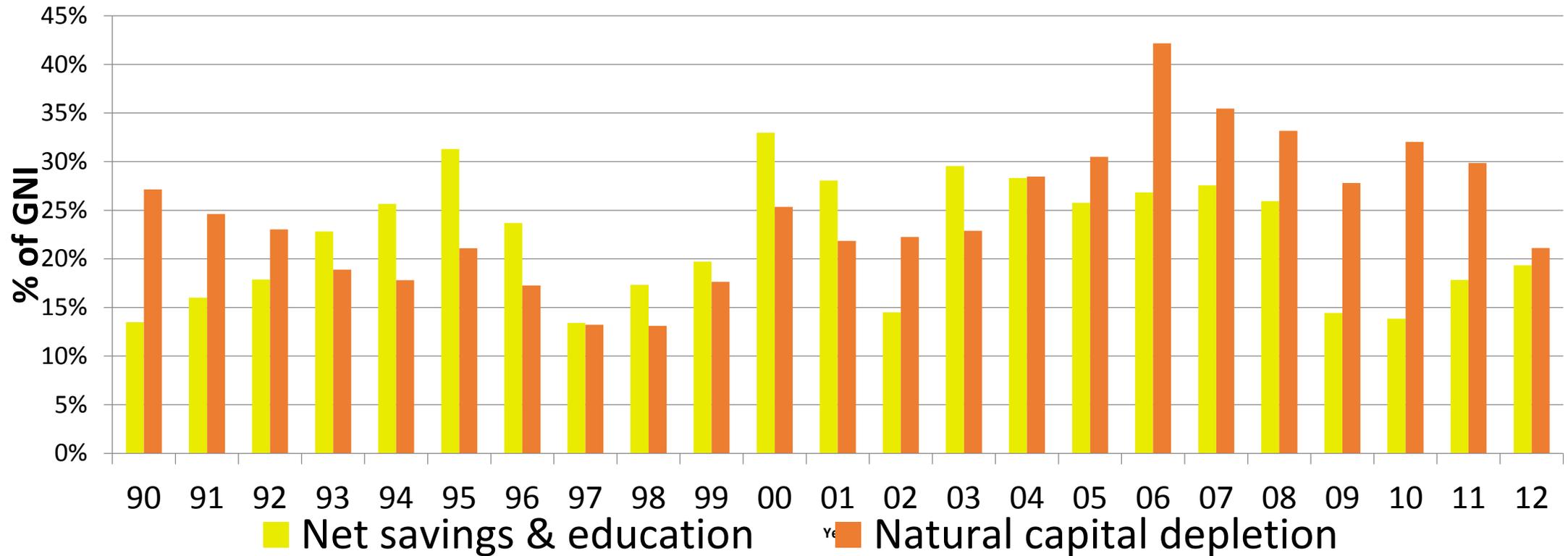
# The more resource-dependent the economy, the worse growth is as a welfare indicator

- 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.

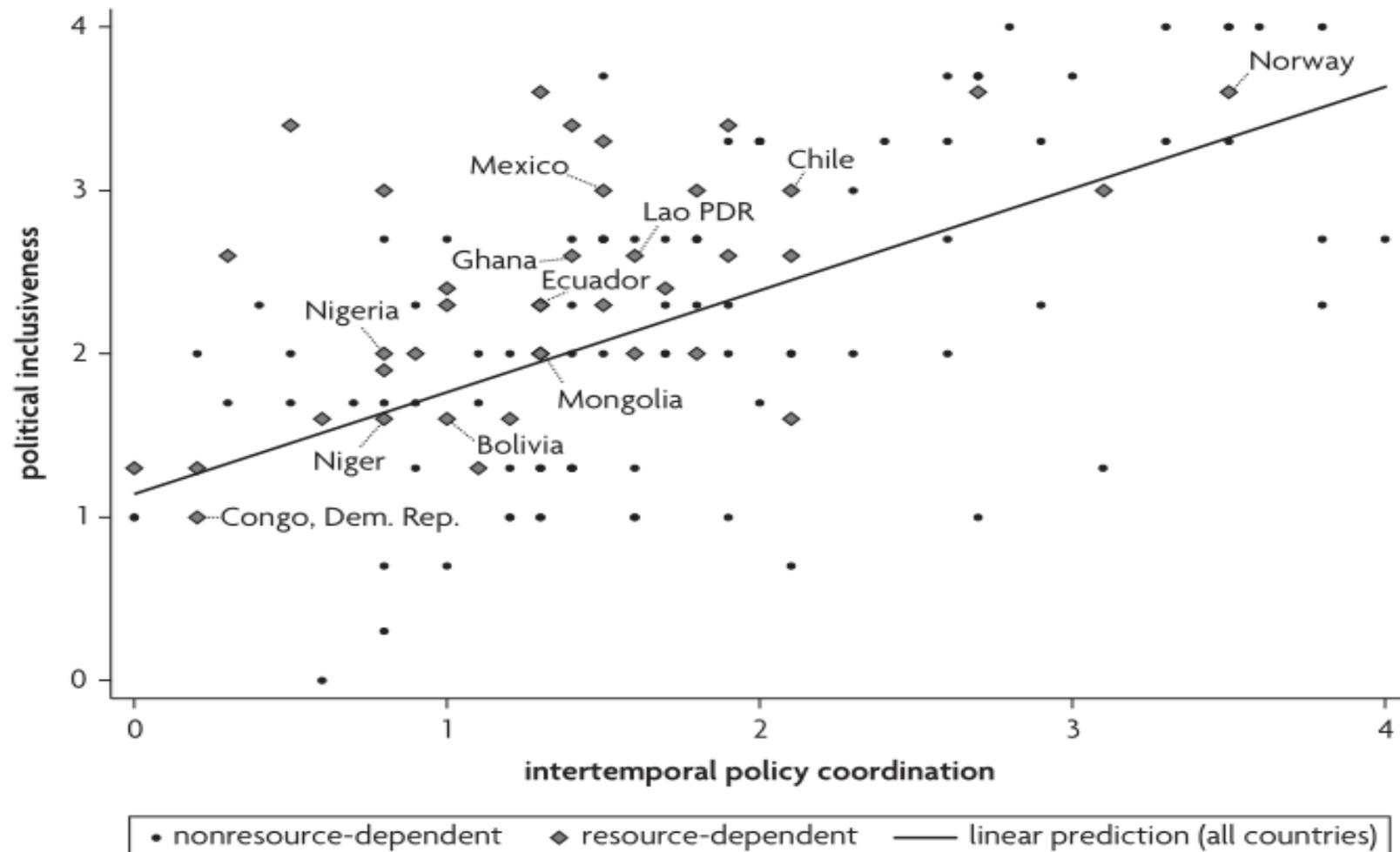


Assessing policy in a resource-  
dependent economy: lessons  
from international experience



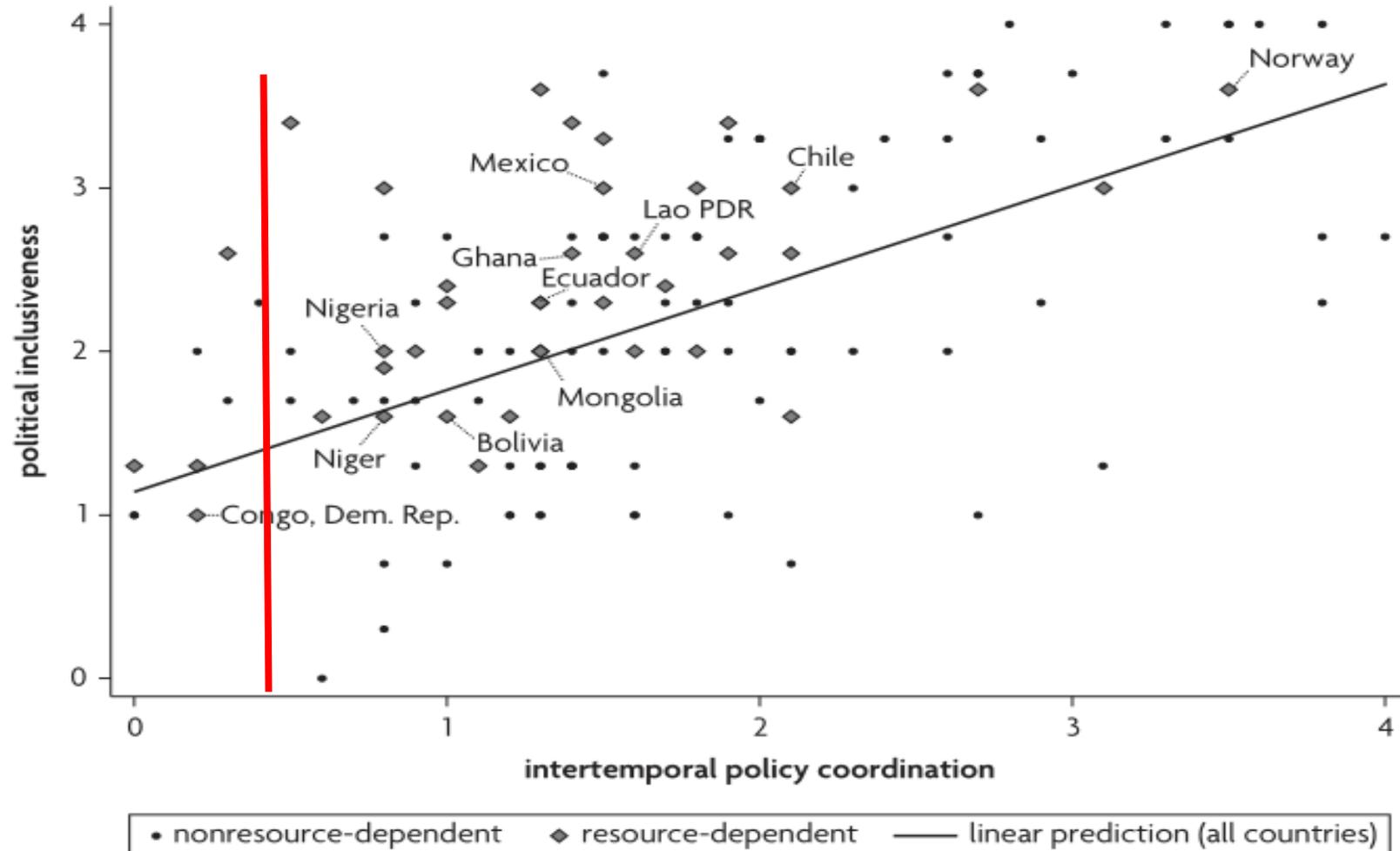
# The “Resource to Rents” story

Figure 2.6. Intertemporal Credibility and Political Inclusiveness

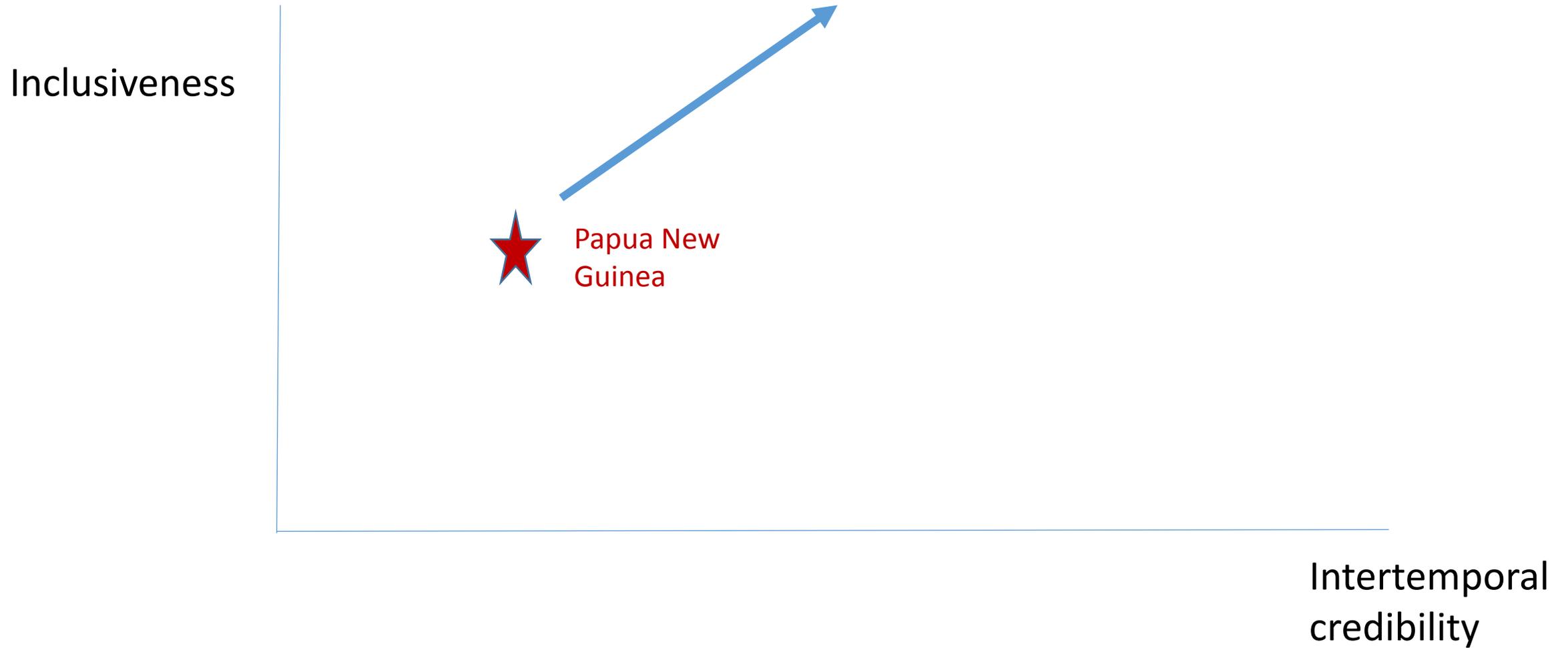


# Where does PNG fit in?

Figure 2.6. Intertemporal Credibility and Political Inclusiveness



# The PNG challenge



# Assessing policy: applying the framework to PNG

SWF

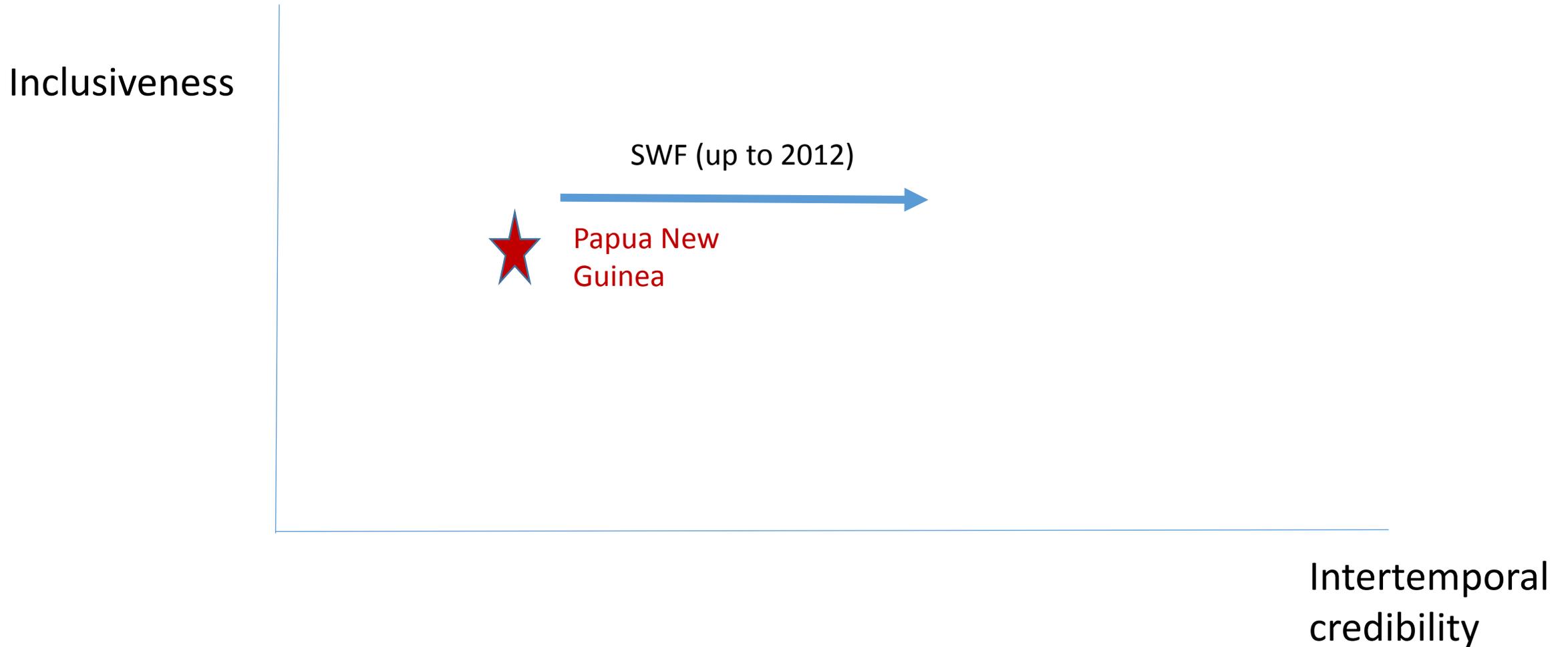
Ok Tedi/SDP

The development spending surge

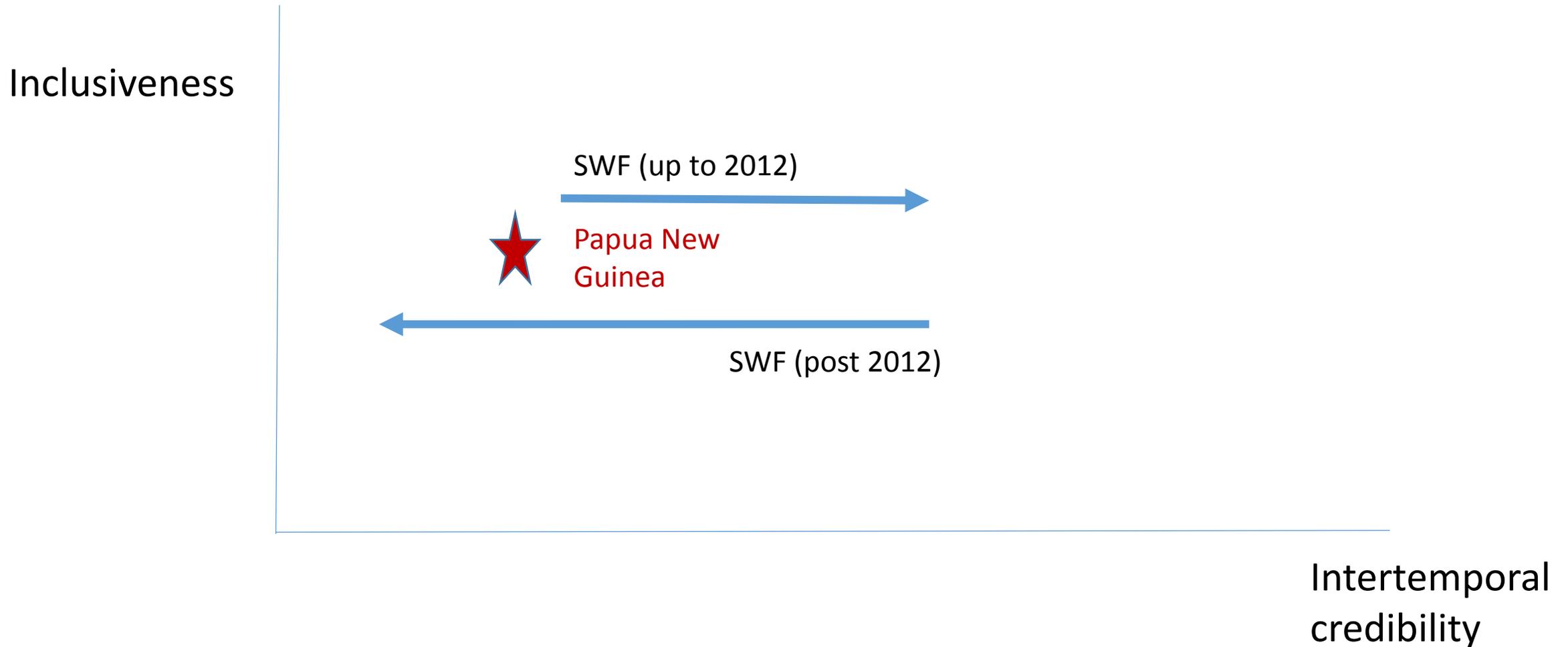
# Sovereign Wealth Fund

- 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



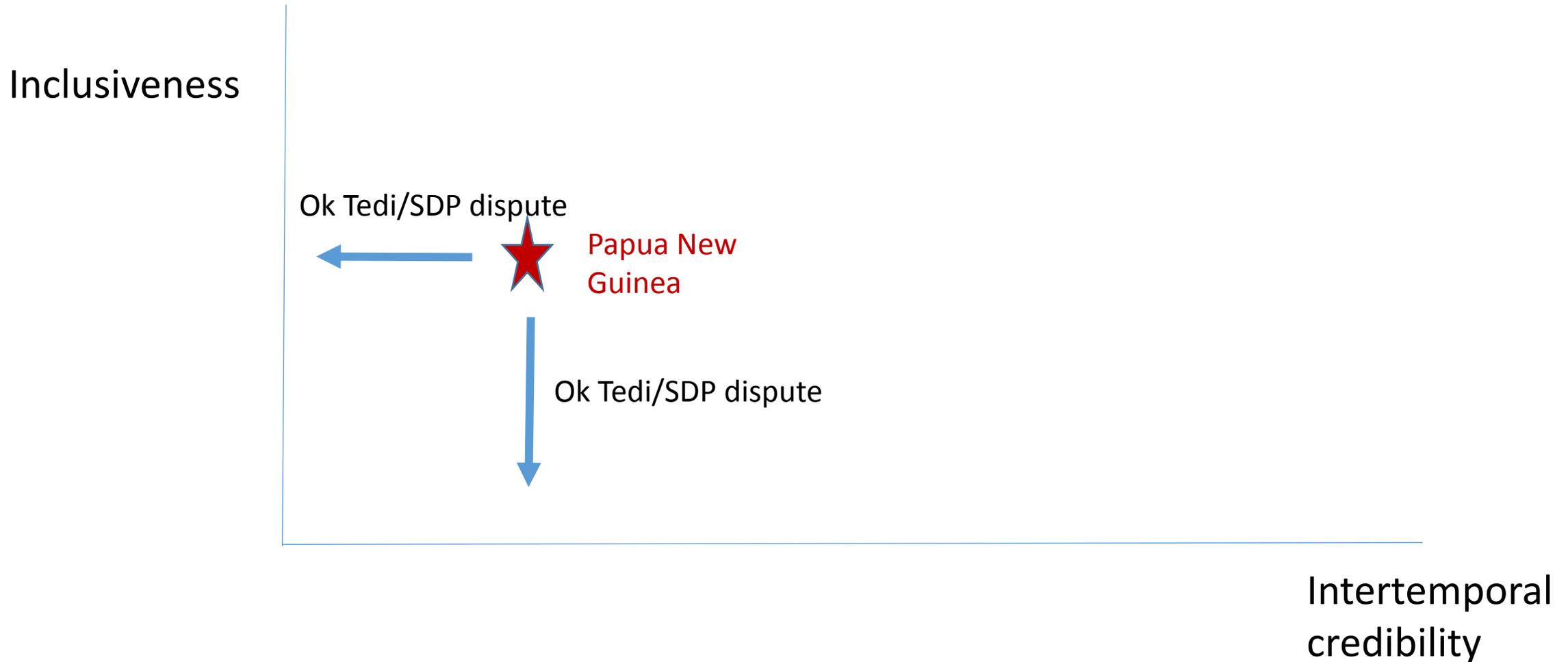
# Applying the framework: SWF cont.



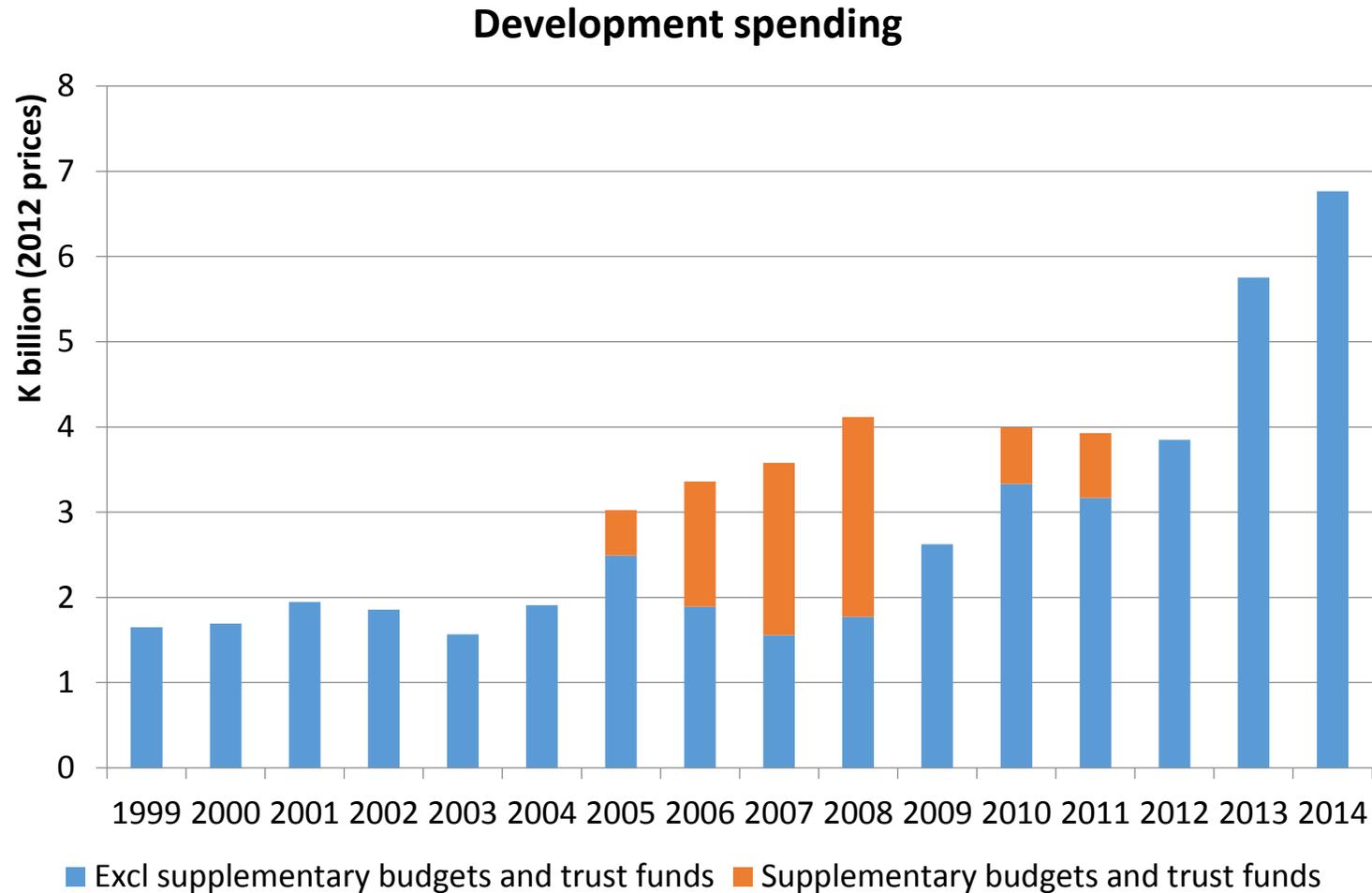
# Ok Tedi nationalization and SDP dispute

- 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

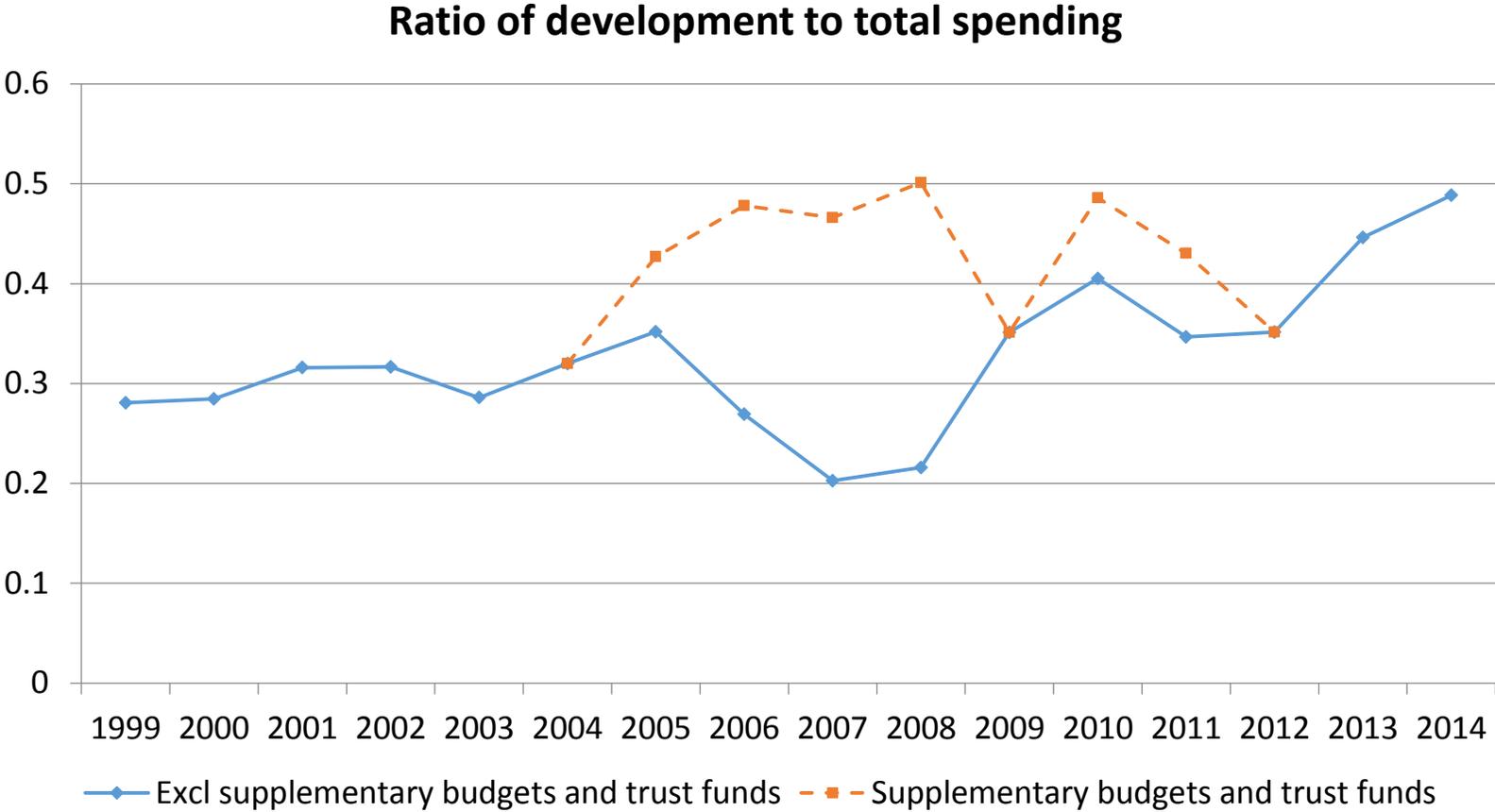
# Applying the framework: Ok Tedi and SDP



# Surge in development spending

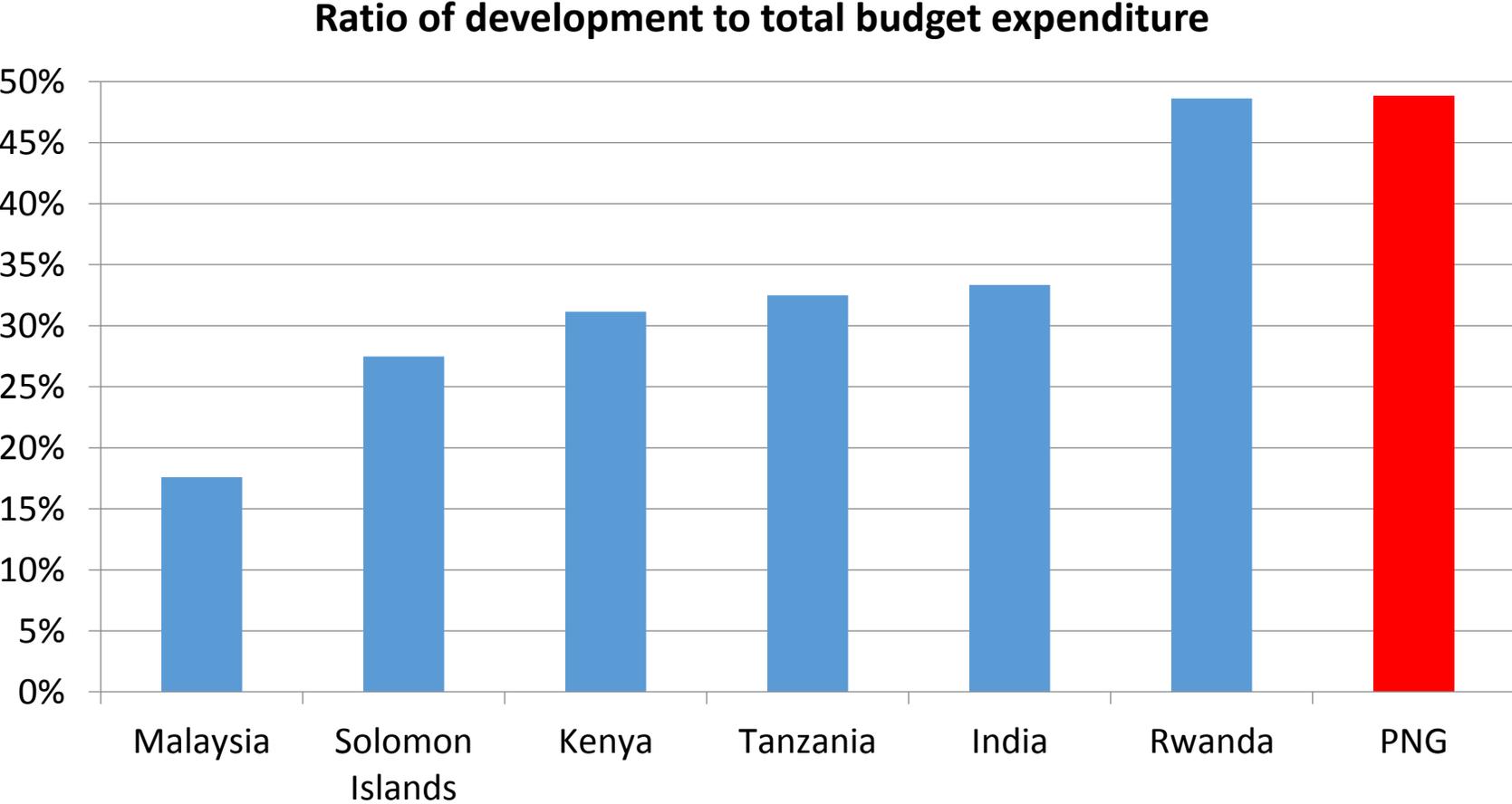


# The development budget is a bigger share of the budget than ever



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

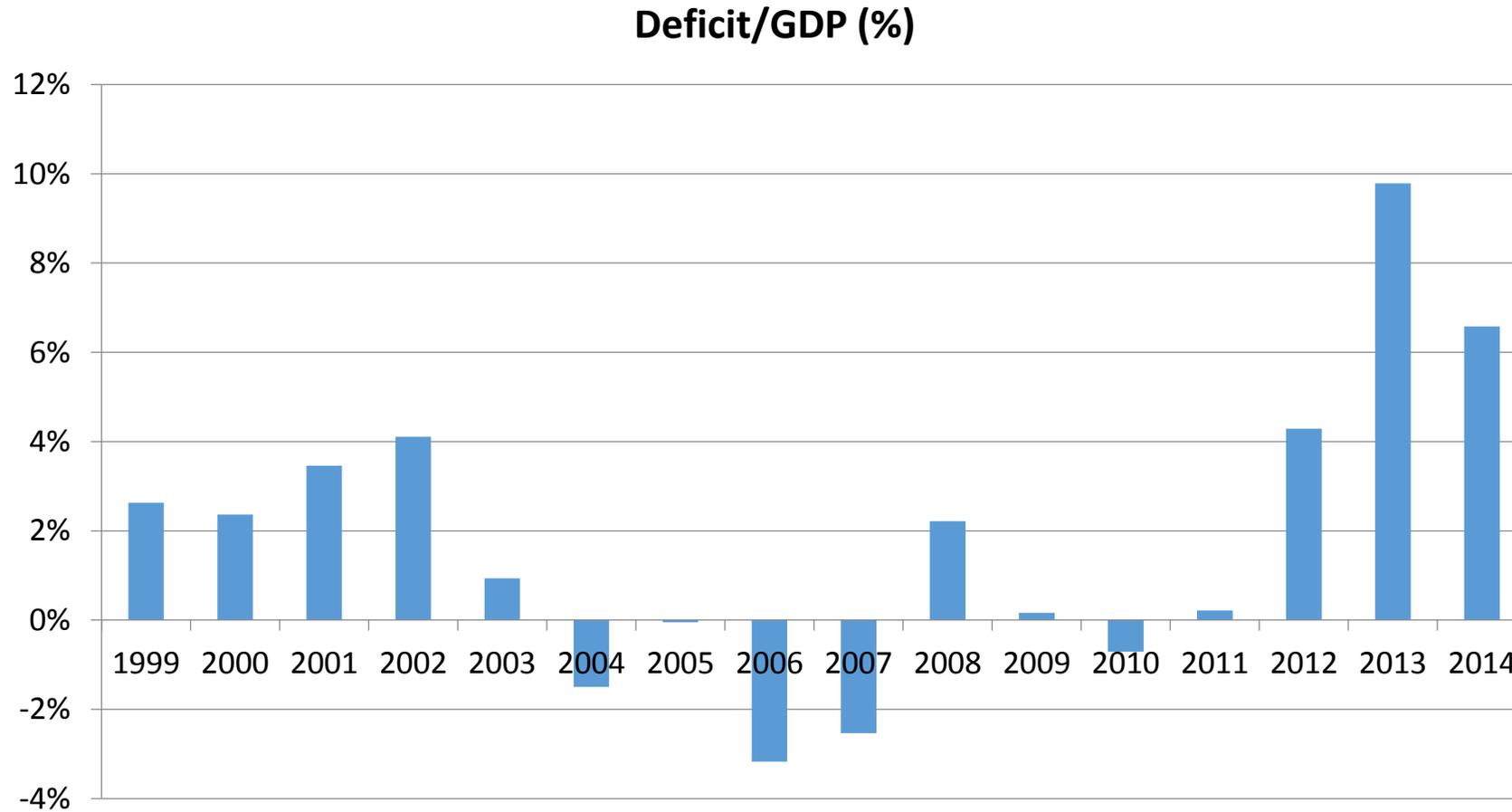
The share of development spending in PNG is very large by international standards



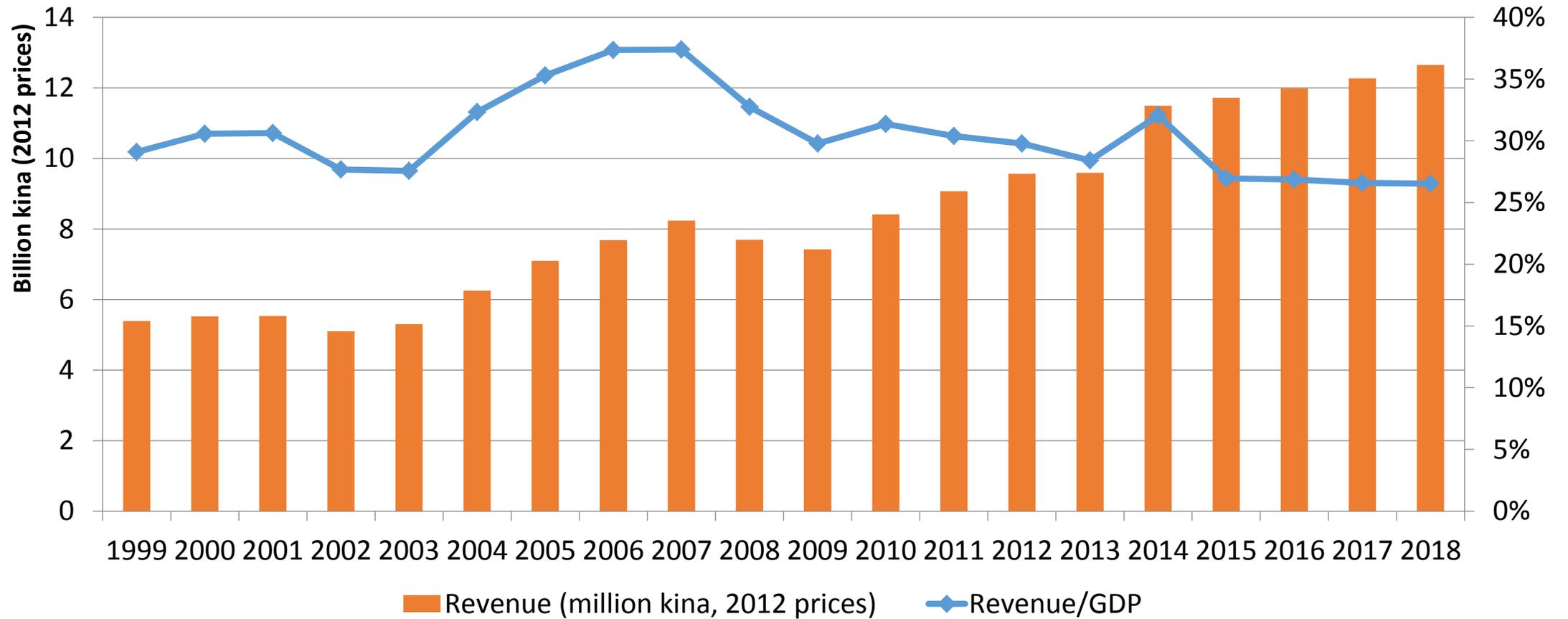
# High level of development spending sounds good, but ...

- 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



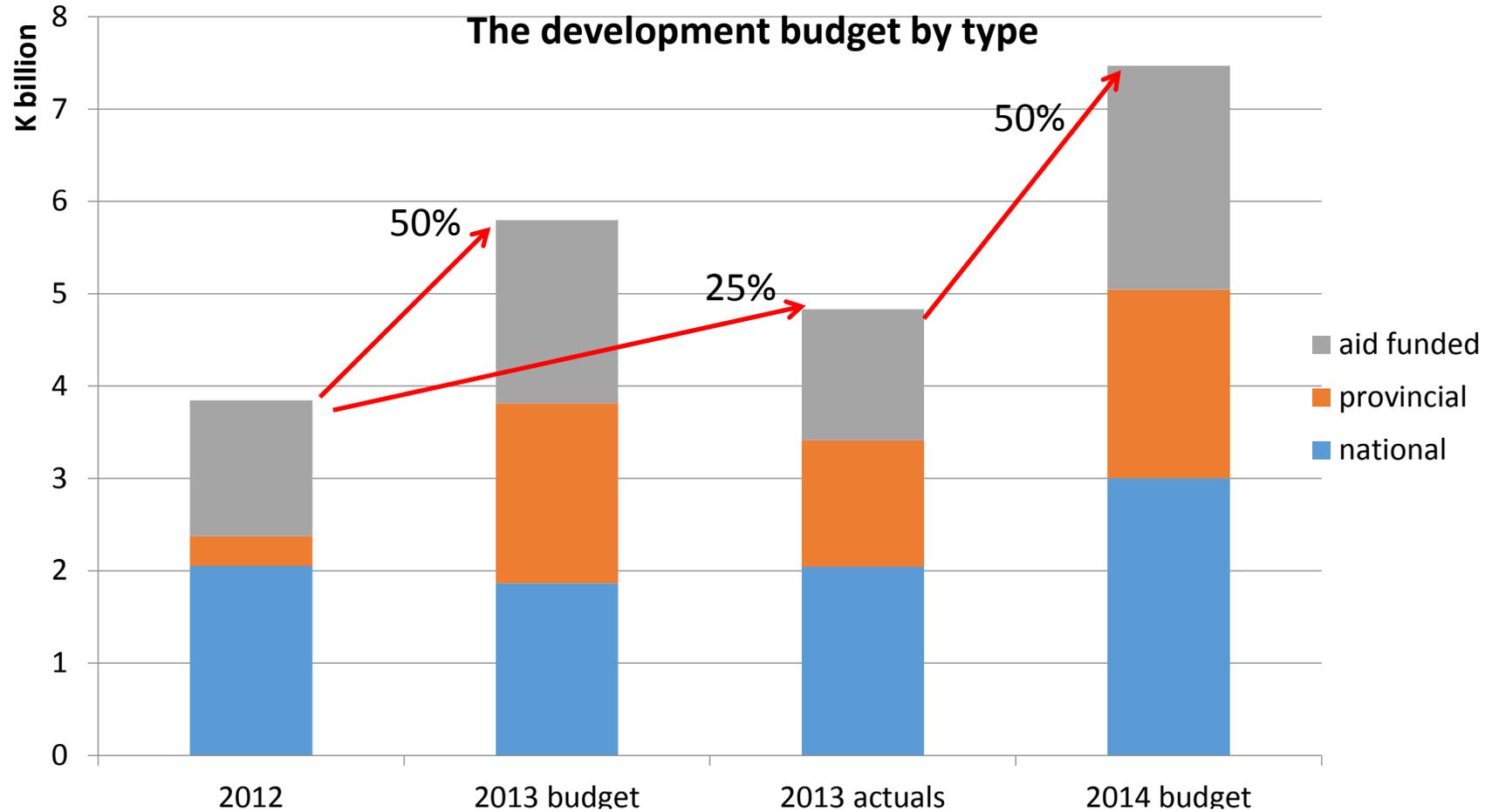
# Squeezing of service delivery budget

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

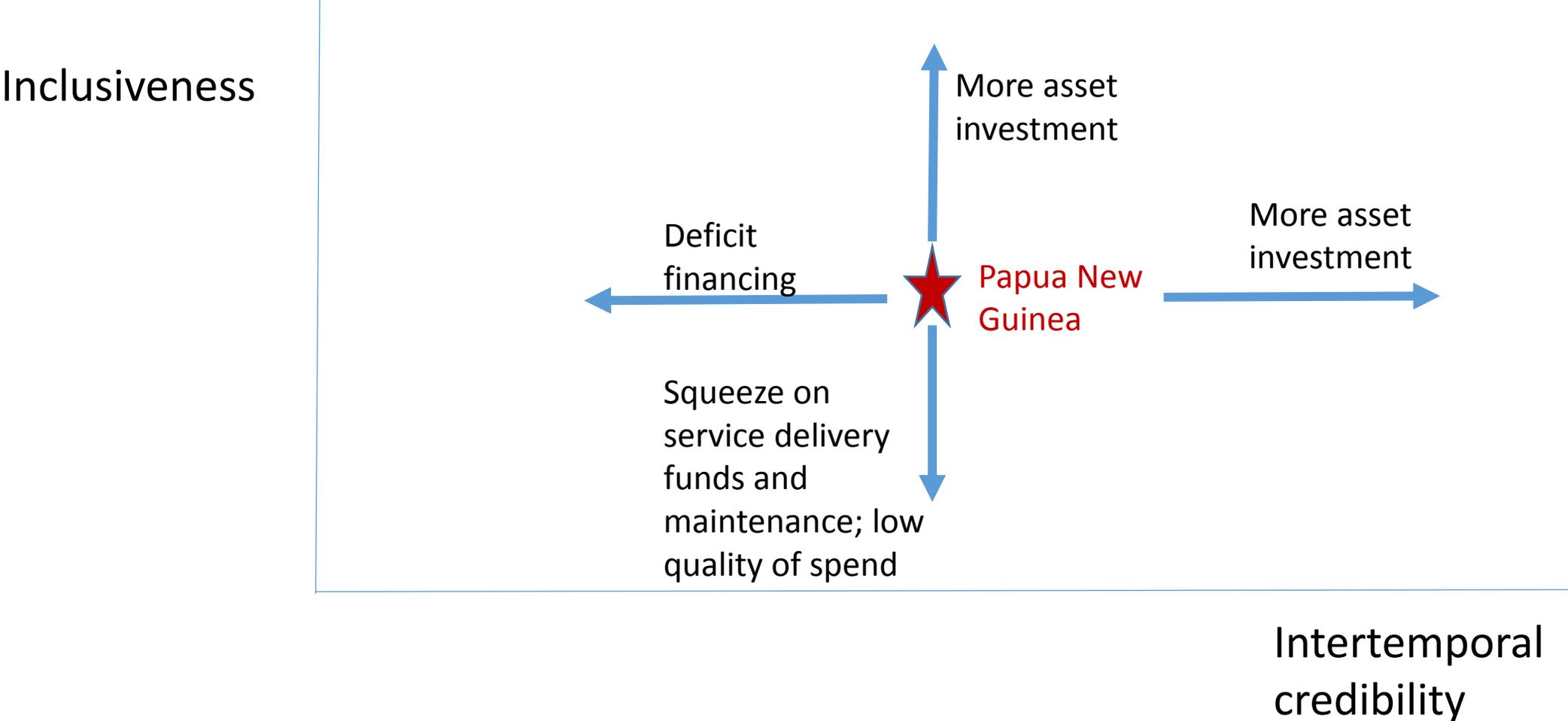
Since 1999, adjusting for inflation, recurrent budget has grown on average at 3.5% a year, but development budget on average at 9.9% a year.

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



# 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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