

Towards a Melanesian way of beating the resource curse

by Glenn Banks

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Critics of resource-led development will have a field day: in the first quarter of 2015, the [BPNG records](#) [pdf] that Papua New Guinea's LNG-led export growth had reached a peak, with over K5.26 billion worth of mineral sector exports for the quarter, up from K2.7 billion in the same period 12 months earlier. Yet the government revenue take from the sector was one of the lowest quarterly amounts in decades, just K27.4 million (or 0.52 per cent of the value of the exports for the quarter) [1].

I hesitated before putting these figures in because they might become apocryphal – the classic case of the resources of a country being ripped off by foreign multinationals for (almost literally) no return. There are some good reasons for the figures – lag between exports and taxes paid, low commodity prices impacting on profitability at the different operations, and the changes in state equity holding impacting on dividends recorded and taxation paid – but regardless, the first quarter numbers are a vivid illustration of the Finance Minister's recent announcement at the [2015 PNG Update](#) that 'LNG is a myth' in terms of delivering economic development to the nation.

What the numbers illustrate most clearly are the effects of price volatility in the sector, and the subsequent, highly uneven returns to the government. Papua New Guinea is not alone in this: indeed commodity price volatility is held to be one critical element of the 'resource curse' – the well-worn idea that extractive industry-led development can impede the social, environmental and economic transformation of a country. Volatility in resource revenues makes it extremely difficult for governments to manage these flows effectively, and makes strategic development planning difficult. In this regard, and others, Papua New Guinea certainly exhibits many of the classic markers of the 'curse'.

This resource dependency and volatility was a central element of the story that was told in the [UNDP National Human Development Report \(NHDR\)](#) [pdf] released at the end of 2014. The question that framed the report was: how can Papua New Guinea better translate its extractive-led economic growth path into improvements in human development than has occurred over the past 40 years? As the report documents, despite resource-led economic growth, the indicators of human development – including progress towards the Millennium Development Goals (MDGs) and poverty levels – have barely moved. The little evidence there is suggests that inequality has risen dramatically over the past decade, backed by widespread reports of high-level corruption and governance failures.

The NHDR then sought to offer guidance and policy alternatives on these issues to the government, civil society and the sector, developing 33 ‘policy option’ areas that sought to improve the links between extractive industries and more inclusive and sustainable forms of development. Building on both Papua New Guinea’s 40 year history of engagement with the large-scale extractive industry, and recent global experience and policy experiments, the NHDR put forward a range of suggestions for ways to better connect the extractive industries with improvements in broad-based human development and reduce the social and environmental damage the industry creates, while paying particular heed for the policy options to fit the local Melanesian context.

The policy options were structured around a recent [UNDP Strategy on Extractive Industries and Human Development](#), and covered suggestions that went from the development of policy and regulation, to ways to improve social and environmental outcomes. Four broad areas were seen as being of particular importance:

1. At the macro-level, the question of state equity in the sector (through state ownership) continues to be contentious as the strongly nationalistic streak among the public and politicians can divert attention from the risks associated with such investment. Transparency of resource flows (from the operator, within government at all levels, and perhaps most significantly within landowning companies and communities) needs to be heightened, and the report noted initiatives that sought to do this (such as the country’s application to join [EITI](#)). In the long-term, the [Sovereign Wealth Fund \(SWF\)](#), which recently came into being, will be critical (as it has been in Timor-Leste, Chile and Ghana) for managing the volatility of revenue flows from the sector. However, there are still concerns about how it will articulate with revenue flows from the new State *Kumul* bodies that consolidate state equity in the minerals and petroleum sectors.
2. Given history and the Papua New Guinea context, the NHDR devotes attention to a range of policy areas concerned with improving the connection between communities and the extractives sector. Most fundamentally, the report calls for the issue of mineral ownership to be fully and openly debated at the national level. Much of the conflict around the sector is generated by the state ownership of minerals, which sits at odds with Melanesian forms of ownership, and there have been calls for the last twenty years to grant ownership of sub-surface resources to landowners. Local mineral ownership, though, would be difficult to put into practice: if nothing else, the sector would need to be certain that the regulatory processes and

procedures protected their multi-billion dollar investments from the vagaries of landowner politics. The report also called for the greater involvement of women and marginal groups in the development of mineral policy and in the negotiations for specific resource operations. Finally, the report proposed an independent ‘Ombudsman’ with the power to investigate and rule on conflicts within the sector. This would require a lot more detailed work (in terms of staffing, location and ambit), but it could provide recourse for those individuals and communities negatively affected by resource developments in a way that isn’t currently available.

3. Any discussion of extractives and development inevitably leads to governance and institutions. In the context of Papua New Guinea, such discussions typically descend to broad-brush calls for ‘improvements in governance’. And there clearly are serious problems with institutions and systems within the country – as [Howes et al \(2014\)](#) [pdf] showed so effectively for the health and education sectors. What they also showed, though, was that there had been some improvements in some provinces over the past decade. The key is to identify what decisions, processes and systems had led to such improvements and build on them to improve the links between the expanding health and education budgets, and human development outcomes. Incremental improvements in the quality of service delivery year on year are likely to lead to more sustained improvements in human development indicators, and livelihoods for the bulk of the population, than more grandiose initiatives such as the SWF. Two other issues around governance that the report flagged were the need for greater levels of integration at the local level of the resources available from the various arms of government, politicians and corporations, and the need to properly resource and give power to those regulatory arms of government with oversight of the industry.
4. The environmental aspects of the extractive industries present the greatest challenge to broader notions of sustainable and inclusive human development in Papua New Guinea: the Ok Tedi mine is the ultimate proof of this. The NHDR discussed these effects in some detail, and argued that if (as is likely) the country continues to rely on these massive operations, then environmental effects will always occur: the key is to make sure that affected communities are genuinely involved in discussions of the impacts and compensatory developmental benefits, and that regulators ensure that the corporations minimise these effects by utilising leading technologies for environmental management. Innovative approaches, including the [biodiversity offset program](#) being trialled by ExxonMobil in the context of the PNG LNG project, should also be part of discussions.

Some – indeed many – of the policy options in the NHDR were aimed at providing novel options for government, building on successful recent initiatives and seeking to bring gradual shifts in the thinking and talk around the role of the extractives industry in the country’s development. The report is very clear that many of these policy arenas require urgent attention, or opportunities will be lost. Amidst the economic crises and political turmoil associated with Papua New Guinea, there are reasons to be optimistic, with indications – new Acts, policies and regulations, and new ways of operating by the government and by the companies – that suggest that this current, heightened phase of resource dependence will produce more positive development outcomes for Papua New Guinea than previous ones.

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Report 2014: From Wealth to Wellbeing: Translating Resource Revenue into Sustainable Human Development, for the United Nations Development Programme (UNDP).

*[1] Refer to **BPNG Quarterly Economic Bulletin Table 7.2: Mineral Sector Payments to Government**. Note that this is the provisional figure from the **BPNG QEB for March 2015**.*

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