Growing infrastructure congestion and bottlenecks: inadequate investment and routine maintenance of core transport infrastructure, including PNG’s aging and inadequate ports, is severely handicapping economic and social opportunities, for both major industries and rural households alike.

Economic performance: Papua New Guinea’s period of unparalleled economic growth has continued into the new decade, with the country having even thrived during the 2008/9 global downturn with a positive rate (4.5% in 2009). The strong growth rates of the mid-late 2000s were driven (directly and indirectly) by high prices of its major export commodities, but also based upon some structural reforms introduced earlier in the decade, which unencumbered parts of the economy, including mobile phone competition, combined with generally prudent fiscal and monetary management, fostering relatively stable macro-economic conditions. The continued buoyant price of its predominant export earner, gold, plus some agricultural crops, notably cocoa, and the early recovery of other major export commodities, enabled PNG’s economy to avoid the recession experienced elsewhere; this was reinforced by the strong liquidity and relative isolation from the global financial crisis of the banking sector, together with the momentum of major ongoing investment, notably in urban construction, and the fiscal parachute provided by accumulated savings from the earlier so-called ‘windfall revenue’. The prospects of a few major new resource projects, helped buoy up sentiment for the economy, fuelling the boom in construction, real estate prices and rentals, generated initially by the proposed Exxon-led Queensland gas pipeline, but superseded by the multi-billion dollar PNG LNG project, combined with other potential LNG and mineral proposals. The revised growth forecast by Treasury for 2010 is 7.5% (down from their initial 8.5% forecast with the delays in the Ramu Nickel project), with nominal GDP currently estimated at around 24 billion kina.
The PNG LNG project was forecast in the ACIL-Tasman report to more than double PNG’s GDP. This underestimated the country’s GDP, whilst Gross National Income would better demonstrate the more modest net benefit retained in the country, once overseas costs, debts and remittances are deducted. Nevertheless, the US$15+ billion investment, and potentially further LNG development from Gulf and Western Provinces, will certainly transform PNG’s economy, providing the country the foundation for long term investment in public infrastructure and services, needed for a diversified economy and an educated population, so long as the authorities markedly enhance the utilisation of revenue. It will also, however, have the potential to severely distort the economy and undermine the prospects for other needed sectors, if the authorities fail to mitigate real potential negative impacts, during both the construction phase and particularly once major revenue commences late this decade; such mitigation includes sanitising a portion of that income in a transparent and well-governed Sovereign Wealth Fund, or funds.
Sustained demand for a wide range of PNG’s mineral and other primary commodities (particularly from fast developing east and south Asian economies) has enabled growth to spread to most sectors, although still largely concentrated in major towns, enclave projects and a few rural industries, being restrained, particularly in rural areas, by poor infrastructure and services. Recent strong demand for scarce skills and other factors of production, including land and accommodation, has seen growing supply constraints, imposing increased costs and squeezing less competitive industries. This trend will be exacerbated as the LNG project’s construction phase proceeds, through to its planned completion in 2014.

**Employment:** Formal sector employment grew firmly from 2004 until early 2008, extending into all sectors and regions, somewhat unevenly, but the growth rate has declined steadily since then, according to the Central Bank’s survey, except in the mineral/gas sector. This is a matter of concern, needing attention, in an economy where non-mineral industries generate most employment and with PNG’s rapidly growing population (est. at approx. 2.7% p.a.). The phased increase in the mandatory Minimum Wage (over 2009/10) was overdue for low earning employees, but further undermined the competitiveness of certain struggling agricultural and manufacturing businesses and forced some lay-offs of unskilled workers during 2010, although less-scrupulous businesses thrive under the lax application of the Determination by authorities. Demographic data is largely unavailable or outdated for PNG, particularly with the deferral of the 2010 National Census, but there appears to have been a major population drift over recent years to urban centres and resource projects, including the proximity of mines, by people seeking employment and better basic services than available in rural areas.
Commodities and markets: Commodity prices for PNG’s exports having largely regained their levels of 2008, providing strong returns for major industries and lifting prospects for marginal investments. Uncertainty remains in the global economy and financial markets, particularly with the tentative recovery of the US economy, concern over public debt levels in some European economies, and doubt over the sustainability of China’s robust growth rates once their stimulus package is lifted. This uncertainty has shored up the price of gold and generated some volatility in currency markets, with pressure on governments for protectionism or tit-for-tat devaluation, in order to retain international competitiveness or markets. The burgeoning demand in major emerging economies for hitherto unaffordable consumables, including energy and food items, combined with ongoing public infrastructure investment and uncertainty and reactive protectionism over food security, are likely to sustain firm prices for raw materials, fuel (including bio-fuels) staple foods and more luxury food items (including sugar -now at a 30 year high), enhancing returns on primary production for both export and import replacement in PNG, but also raising input costs and the cost of living for consumers, particularly lower income earners.

Papua New Guinea has remained almost unique in the East Asia and Pacific region as a net beneficiary from the high commodity prices, even of oil, still being a net (albeit declining) exporter, and with the majority of the population still engaged in agricultural production. Nevertheless, there are clearly beneficiary industries and households within the community and losers, notably those for whom rentals, energy and/or food purchases form a major portion of net expenditure and have little protection from these market forces. High commodity prices and poor governance have also fuelled a speculative and legally questionable land and resource grab (including potentially for carbon trading), marginalising the rights of customary resource owners, but also restricting options and potentially undermining genuine investors and resource developments (including genuine payments for environmental services).
The strong commodity prices of recent years have not, largely, resulted in increased output, either in the mineral or agricultural sector, with the notably exception of oil palm, to some extent cocoa (until the onset of cocoa pod borer) and some volatile minor crops. It is concerning that increased earnings gained from the production and export (or import replacement) of PNG’s major exports are attributable largely to the improved prices, with limited, if any, direct supply response. In the case of minerals and hydrocarbons, the improved conditions resulted in increased investment in exploration and several large and smaller projects being developed, or existing projects such as Ok Tedi, having their lives extended. Mineral sector output remains dominated by a few, largely aging, operations, notably Ok Tedi, Kutubu oil, Porgera and the younger Lihir mine. These have dominated export earnings and (apart from Lihir until this year) provided disproportionately to government’s narrow revenue base. Although some larger and various small mining operations will commence production over the next few years, government revenue is likely to be tight, particularly if prices slip back, prior to LNG’s substantial revenue contribution late this decade, as major current mines and Kutubu oil continue to scale down, even as new projects commence production. The need for prudent fiscal management and a broader tax base is critical during the next years particularly, to meet demand for essential infrastructure and services for a fast growing population, with rising expectations, driven partly by LNG and the government itself.

Whilst the minerals (including oil) industry is calculated as only comprising 13.5% of GDP in 2009, and even forecast by the Treasury to slip to 7.7% in 2014 (prior to LNG production), it provided 65% of export earnings in 2009 and 84% in 2007. By contrast agriculture, forestry and fisheries are calculated at providing 34% of GDP in 2009 but only 18% of exports earnings. Gold now dominates mineral export earnings, with 39% of total export earnings in 2009, against copper at only 15% (down from 34% in 2006) and oil with 12% in 2009, against 31% in 2001. With the continued price rises in 2010, gold, copper and oil are expected to comprise a larger component of exports in 2010, estimated around 43%, 21% and 13% respectively. The major agricultural export crop, oil palm, only provided about 6% of exports in 2010, followed by 4% for coffee and cocoa (2%), although the number of PNG households dependent for income and employment directly or indirectly upon these agricultural crops (in formal and informal sectors) far exceed those in the mining and oil sectors.

Tourism numbers have grown in recent years (particularly linked to trekking and other adventure travel), although remaining modest in relation to apparent potential and it Pacific neighbours, such as Fiji, Vanuatu and Samoa, with their lower costs, partly from having embraced market reforms earlier, including competition in air and telecommunication services. The contribution of fisheries to the PNG economy remains disappointing, considering that the world’s major remaining tuna resource lies in PNG and neighbouring waters, and is being harvested by a growing fleet of international vessels. Efforts to base more of the international fleet and process a greater portion of the regional harvest onshore in PNG depends upon satisfactory market access. Long term prospects also depend upon suitable catch ceilings being applied rigorously and safeguarding deep sea and coastal marine habitats, plus competitive fuel and freight costs, resource management and licensing arrangements.

Economic Background and Prerequisites

PNG’s post Independence economic performance has been poor, largely entailing sluggish growth rates, interrupted by some short-lived booms, followed by bust, associated with major price hikes or
projects, commencing or closing, like Kutubu oil, Ok Tedi and Bougainville. The rapid growth of the early 1990s was very short-lived, with a return to bust from 1995 onwards. By the end of the 1990s PNG suffered many structural problems, discouraging investment and undermining the private sector’s capacity to perform, whilst the public sector had virtually no operating funds. Mechanisms to counter major economic swings and troughs, notably the Mineral Resources Stabilisation Fund, had been used for short term expediency.

In the early years of this decade significant institutional reforms were launched to improve investment conditions for the private sector and break the grip of a non-performing public sector, including its high cost and monopolistic state owned enterprises. These reforms included independence for the Central Bank on monetary policy, superannuation fund reform, extensive privatisation and regulatory frameworks for competition, as well as political reforms for greater political stability. The programme made partial progress before a change of government in 2002.

Although partially curtailing the reform programme, including privatisation, the new government undertook measures to improve fiscal and debt management, launching a series of medium term planning, fiscal and debt strategies, providing priority expenditure and targets, as well as the *Fiscal Responsibility Act*, to restrain undisciplined expenditure and borrowing. Some reforms to public sector management, investment conditions for the mining sector and opening up some air services and ICT to competition provided immediate public and business benefits, and demonstrated the potential gains if applied in other sectors and utilities. Although the use of Trust Funds to absorb ‘windfall revenue’ from the high commodity prices of 2006-8, was somewhat ad-hoc, the temporary insulation of some funds for future development provided initial benefits and stimulus during 2009, although, as with the former MRSF, these funds have generally been poorly utilised, rather than planned carefully and invested in priority restoration or retained to safeguard future expenditure.

Major long and medium term planning initiatives introduced in 2009/10, including the Vision 2050, Development Strategic Plan and the 5 year, MTDP, provide potential opportunities, but inadequate consultation with stakeholders in government, let alone the private sector and civil society, undermines the credibility of the plans, which contains many severely unrealistic forecasts, targets and mechanisms. The initiative by government is commendable but also demonstrates the critical need for regular dialogue with the private sector and other players, who are at the forefront of economic and much community activity. Some Government institutions, such as Treasury and Bank of PNG, recognise the value in openness, and the relatively strong rating PNG received in the 2010 Open Budget Index, was largely the result of that readiness to provide prompt access to Budgetary information. Their cooperation over fiscal and monetary management and in the planning and wide consultation over the proposed Sovereign Wealth Fund(s) is also commendable, and critical if there is to be effective preparation for the impact, sanitisation and effective utilisation of future LNG and other resource revenue. However, most government institutions are performing ineffectively and relatively unaccountable, and require much greater coordination and oversight, including by a more proactive legislature, better funded audit bodies and the public itself, through an effective system of social accounting, right down to the local level, to ensure that public funds are utilised properly for priority public goods and services.

The LNG construction phase will employ some 15,000 skilled persons, largely from overseas, but including several thousand from within PNG, invariably absorbed from other industries, including
mining, but also agriculture, manufacturing, the service sector and government. Many of these industries and current employees have little capacity to compete, and yet play critical functions in providing core infrastructure for the whole economy (e.g. the Works Dept.) or in generating business and employment beyond LNG’s construction phase. Once operational, PNG LNG will only employ some 500 staff directly. Its main contribution to the PNG economy is clearly not from employment generation, but providing the revenue for the State to deliver the infrastructure and services needed for a broad-based, growing and healthy economy and its citizenry. With the State (including Provinces) as the principal vehicle for delivering these benefits for the country, it is essential that the State and its organs perform to a markedly high standard than now, if the benefits from LNG are to be derived.

Future LNG and other resource revenue must not be pre-committed (or mortgaged), and must be carefully balanced between investment for immediate needs, notably effective infrastructure, health and education, and the requirement to minimise Dutch disease effects, which would undermine the prospects for the rest of the economy, in the agricultural and other industries, which must generate the broad-based economic opportunities and employment for the growing population. The Sovereign Wealth Fund(s) are intended for sanitisation, stabilisation, investment and future savings purposes, but there must be wide awareness and adequate sense of ownership of these funds, to justify their existence and protect them from the abuse that occurred with the former MRSF. Adherence to the highest governance requirements, stipulated in the Santiago Principles for SWF s, is crucial, if such funds are to perform their functions in the best long term interest of all the people of PNG. Some existing models exist for prudent fund management and supervision in PNG, including superannuation funds (post-2000), PNGSDP and MGCTF, as well as some less auspicious models.

It is critical that the solid progress achieved during the 2000s to create more conducive conditions for investment, by both reputable local and international enterprises and micro enterprises, is sustained, and not undermined by loosening of fiscal management and slippage of stable macro-economic conditions, ad hoc agreements inconsistent with standard investment conditions, or weakening of governance and administrative capacity, as prevalent with land administration. Rigorous preparation is critical for major resource projects by the authorities, including correct identification of genuine landowners and thorough social and environmental planning, including consultation and frank presentation of options, as short cuts invariably have negative consequences, including incorrect beneficiaries and alienation. Seeking to restrict landowners’ access to Court processes to appeal administrative decisions, (e.g. through Amendments) is counter-productive to all parties, wherein trust and good community relations are essential, and restraining legal avenues for redress might encourage less conducive mechanisms for expressing grievance.

Economic Indicators and conditions for more sustainable development

Debt: A notable achievement has been the reduction of public debt to GDP from about 70% of GDP in 2003 to 32% in 2008, albeit largely as a result of the growth in the overall economy, with relatively modest debt repayments. With the tighter economic conditions in 2009, the debt level remained steady, but has fallen again in the first 6 months of 2010 to approx. 29%. Recent comparative analysis by BPNG has found that PNG’s debt reduction has been on a par with other developing countries, including averages for Africa and Latin America, where stronger economic growth also prevailed widely during the commodity booming 2000s, although PNG started with a higher debt
level than their average. Overseas debt particularly has been reduced, notably concessional debt, with a substantial transfer to domestic debt, carrying lower foreign exchange risk, particularly with respect to servicing costs. Total public debt however, remains about 6.9 billion kina, which needs to be serviced. This is manageable with a growing economy, but would remain a major burden if growth and revenue slowed (as likely for 2013/4), including from weaker commodity prices or exchange rate. Further reduction of this debt level during good times, (particularly with current capacity constraints over effective development expenditure) is a valuable investment for the future, to safeguard a more sustainable economy and consistent expenditure. Debt reduction is a safer option for future proceeds from LNG, ahead of riskier savings in funds or marginal public investment initiatives. Private debt levels have remained relatively static over the past decade, but foreign equity holdings in PNG have increased steadily from around K3 billion to nearing K5 billion.

**Inflation:** After a decade volatility but largely high inflation, it was low from 2004, but started rising again in 2007, officially reaching 11% in 2008, before (purportedly) subsiding in 2009 to 5.7% (headline inflation) with an initial stronger kina (to Aust. dollar) and as imported inflationary pressures eased, particularly from lower global oil and foods prices. It has been forecast by Treasury to rise to 8.5% in 2010 (down from their initial 8.5% forecast with the delays in the Ramu Nickel project) and an underlying rate of 9.5% for 2011, as LNG construction builds up and taps into tight local markets, and with the relatively unrestrained drawdown of government Trust Funds and
lending for property, which required BPNG to reigning the money supply at relatively high cost. There is a wide perception in business and amongst the public that the inflation rate has been much higher than official figures indicate, particularly with the meteoric rise in urban house prices and rentals. This view is accepted implicitly by Treasury and Central Bank, acknowledging the obsolescence of the composition of the current consumer price index. One of the functions of the recent Household Income and Expenditure Survey (HIES) has been to determine the average break-up of household expenditure, and therefore to assist NSO/Treasury construct a more relevant composition for the CPI. The results of the HIES should be forthcoming before the end of 2010.

Over recent months, many industries and households have already experienced considerable cost increases, driven both by growing imported inflationary pressures, but particularly with shortages (and some speculative pressures) developing in the local markets, for housing, office and hotel accommodation in some cities (Lae, Port Moresby and certain centres, like Tari), land, and certain contractors and skills, driven by the growing demand for staff and facilities required by PNG LNG during its construction phase. Although firms are aware that this construction phase is scheduled for completion in late 2104, many are being forced to make major staffing adjustments and other arrangements, with some concerned over their commercial viability, even survival, during this period.

**Interest rates** have also remained low since early 2004, but the higher inflation rates forced the Bank of PNG into tightening monetary policy in 2008, nudging interest rates up, with the Kina Facility Rate raised to 8%, to absorb some of the increased liquidity and commercial bank lending rates rising since 2008 to a weighted average of 10%. The KFR was reduced to 7% in December 2009, and remains there, whilst short term Treasury Bills were cut to 2.5% by mid-2010, with commercial bank deposit rates falling to around 1%. The broad money supply (MP3) is estimated to have grown by 16.9% in the twelve months of to August 2010.
The kina exchange rate fell strongly against the Australian dollar and trade-weighted average from its brief peak in late 2008, although remaining relatively steady over 12 months to the third quarter of 2010, at around 0.4 to Aust Dollar and 0.36 to the US dollar. Much of the instability has lain with these currencies, rather than the kina, based upon sentiment over the prospects of their economies, global commodity prices in the case of Australia and the state of global recovery.

Balance of Payments: There was a growing balance of (merchandise) trade surplus until 2009, with rising export earnings outstripping growing imports, but in 2009 the drop in export earnings from 15.7 billion kina to 12.1 billion reduced the balance from 7.2 to 4.2 billion kina. This positive balance of visibles was inadequate to cover the hefty negative balances for services, resulting in a balance of trade deficit of K367 million and an overall 2009 current account deficit of K1.6 billion in 2009, after a K2.1 billion surplus in 2008. 2010 initially continued the negative trend, but a strong recovery of
export earnings in the second quarter has provided improved prospects for the year, but also highlights the continued volatility which PNG will experience if over-dependent upon a few commodities and major projects. The Treasury forecasts substantially increased current account deficits over the next years (prior to LNG production commencing), rising to some K13 billion in 2013, as massive equipment importation and overseas staffing occurs for PNGLNG and some other smaller schemes.

**Fiscal Management:** Government revenue peaked at 6.3 billion kina in 2007, with 71.4% of that stemming from tax on income and profits, and 37% specifically from mining and petroleum taxes. The income tax base remains narrow and heavily dependent on a few major resource projects. Following the 2008 slide in commodity prices, total revenue in 2009 slipped to 5.6 billion kina, with only 60% derived from income and profit tax, and a mere 13% specifically from mining/petrolium taxes, showing the strong volatility and exposure of revenue to commodity markets and a few major projects. With some of these major projects (notably Ok Tedi and Porgera) in late maturity, any prospective winding down of operations or fall in commodity prices over the next few years (from a poor global economic outlook or even renewed confidence in major currencies reducing the shine of gold) would create a serious revenue gap, notably in 2013-4, especially if there is any major delay with LNG development. This will be a period when government needs particularly to focus expenditure on genuine priorities, notably infrastructure maintenance and education investment, crucial for broad-based economic prospects, whilst carefully managing any ‘windfall’ savings, and avoid frivolous white elephant schemes and political expenditure or commitments (notably around the 2012 Election), causing unforecast deficits, as in 2008 and 2009, (as in 2010).

**Investment Conditions and Mechanisms for Addressing Industry Issues:** The key impediments to business and investment in PNG were highlighted in the INA’s 2007 Private Sector Assessment, which ranked law and order problems, corruption, political instability and the poor state of infrastructure and utilities (such as reliable electricity provision) as the main concerns, closely followed by availability of skilled labour, exchange rates stability and access to secure land. Since that survey was conducted access to skilled labour and affordable accommodation have probably risen amongst businesses’ concerns. International comparisons on ease of business transactions shown in the World Bank’s annual “Doing Business” survey 2010, ranked PNG 102 out of 183, with one of the lowest levels over enforcing contracts (162/183), getting credit (135) and for dealing with construction permits (126), but better levels for ease of employing workers (26) and protecting investors (41). The CIMC National (and Regional) Development Forums and Sector Committees provide a critical mechanism for dialogue between government, private sector and civil society on business impediments and other issues of public concern, although the level of responsiveness by many government institutions and senior officials is disappointing. Since the 2009 National Development Forum a National Working Group on addressing impediments to business and investment has been restored, chaired by the Government’s acting Chief Secretary and comprising

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1 Consultative Implementation and Monitoring Council (CIMC)

2 National Working Group on Impediments to Business and Investment, widely referred to as the Impediments Committee
senior public servants and private sector representatives. It has been addressing selected priority business impediments, including those related to work permits, visas, trade and training issues.

**Prospects:** Some government leaders, and even some from the private sector, have fostered the idea that PNG LNG (and other potential LNG developments) provide a panacea for PNG’s immediate and long term development. This has raised unrealistic expectations, which jeopardise broader-based economic development, but also undermine the LNG development itself, fuelling inflationary demands for payments and compensation, and jealousies and conflict between beneficiary and non-landowner groups and households. There is also a lack of wide recognition of the initial debt servicing obligations of the project, prior to major taxation or equity returns.

The failure of various government institutions to perform their functions effectively, in some cases owing to inadequate resources, in others to management failure, combined with constraints with local skills and core infrastructure, including roads and ports, has handicapped the preparatory process for LNG development or the level of initial benefit to the country from the project.

Adequate attention must also been provided by government to the other major projects, notably existing mines, which continue to provide the bulk of current revenue, and to address the needs of those industries, notably agriculture, manufacturing and potentially tourism, which provide the backbone of current and future employment and broad-based income earning prospects, if nurtured adequately. LNG can (indirectly) support these other industries in due course, but only if the government raises the standards of public performance and governance substantially now, as public sector institutions will invariably provide the main vehicle (through revenue and public expenditure) for delivering wider industry and public benefits. This requires seriously addressing on-going corruption and diversion of public funds from genuine priorities, like infrastructure restoration and maintenance and investment in education. Long and medium term planning have a role, but only if the output is sound and based upon wide consultation with key stakeholders, to ensure accuracy, relevance and wide acceptance.

PNG’s resource extraction industries must maintain the highest social and environmental standards, particularly as the majority of the population (and other sustainable industries) remain directly dependent, currently and for the foreseeable future, upon their unpolluted land, marine and fresh water resources. PNG is unlike mineral-rich countries such as Mongolia, with its vast areas of relatively unpopulated grassland, where extractive industries have limited local impact. The industry in PNG is dependent upon good local community relations, particularly with the unusual hybrid tenure system for mine operations, entailing State approvals but also effective usage rights granted by customary landowners. Immediate application of the EITI in PNG to provide openness in transactions would also enhance public credibility of extractive industries and government. Mechanisms for PNG’s sustainable and balanced economic (and social) development are dependent upon:

- continued fiscal prudence, and focus upon core recurrent and priority development expenditure,
- (more) effective planning, coordination, utilisation and oversight of current and likely increased revenue in addressing priorities, including the long-standing decline in national
and local infrastructure (including rural access roads), including local awareness, ownership and social auditing,

- undertaking immediate and long term public sector capacity building (including improved management, milestones and reporting and through some contracting out of effectively supervised services and Public-Private Partnerships), and transferring non-performing Departments/agencies (like Lands or DAL) under more accountable structures,

- right-sizing the public sector (entailing tailoring it to the needs of the economy and wide community, both rationalising burgeoning institutions, staff numbers and excessive overheads, but also, where justified, reinforcing numbers and calibre to meet growing demand),

- ensuring serious commitment and practical measures by leadership to address critical law and order and governance problems plaguing the country, including both high level and petty corruption, improving natural resource planning, management (including land and natural resource allocation), transparency and oversight, both by strengthening the official watchdog institutions and by empowering the private sector and wider community to oversee planning and implementation processes, including local social auditing,

- establishing a transparently and independently managed and supervised Sovereign Wealth Fund(s), to sanitise an appropriate and agreed portion of LNG revenue, to mitigate ‘Dutch disease’ impacts upon the rest of the economy, and perform other priority investment, stabilisation and future-fund functions, as determined, operating under clearly stipulated ‘best practice’ rules, with strong public awareness and ownership, arms length from ongoing political direction,

- encourage investment and ensure free and fair competition (extended beyond ICT into other hitherto publicly provided goods and services) to enable improved, more reliable and affordable services to business and the community,

- ensuring adequate, equitable and sustained funding and other support for priority human resource development needs, notably, achieving universal primary education (but also greater secondary and more extensive and quality professional and technical education) and ensuring accessible preventative and responsive health services, and addressing the other MDGs, including gender equity, to open up the human potential which lies throughout the community, and improve the prospects for a diversified economy,

It is often easier to defer real reform, in the light of immediate needs and political expediency, particularly in the face of impending elections, when fiscal restraint is often an early victim, and promises made idly. However, failure to address critical issues now, notably deteriorating infrastructure, rising corruption and crime levels and abuse of public money and resources, widespread weaponry, social and domestic conflict and burgeoning compensation claims (and inadequate sense of public ownership of public goods), a land grab over extensive customary land and resources by unscrupulous interests with the connivance of various senior officials, will jeopardise reputable large and small scale investment and sustainable opportunities for business and the whole community.
PNG has extensive natural resources, but in the past major extractive developments, combined with poor investment conditions and deficient expenditure planning and governance, have encouraged boom and bust. As with Botswana’s experience, a country benefits from its resources, not by waiting for the income to address governance issues and fund institutions, but by establishing and applying firm governance conditions from the start, so that when additional revenue is received the mechanisms will be resilient, with the proceeds invested and beneficial, rather than seductive and harmful. As required in the National Constitution, the country must utilise its natural resources wisely in the interests of both current and future generations, without jeopardising the prospects of other industries and communities. That will be the challenge for now and the future.

The country needs broad-based opportunities for a fast growing population, but it only has a certain absorptive capacity for major extractive industries, without jeopardising the rest of the economy. The PNG LNG project and some of the new mines entering operation over the next years will stretch the economy’s capacity to absorb and fully benefit, notably through the provision of local skills and labour. PNG would do well to carefully plan and phase major projects, realising that the resource still in the ground in some cases will provide a safer investment than placed in some risky domestic or overseas deposit, or other investment vehicle, whilst better enabling the country to benefit steadily from its finite resources, rather than unduly liquidate them up front, when the benefits might flow unduly offshore. This debate might not necessarily please some investors or resource hungry consuming nations, but it is a justified debate for PNG to have over its own long term future, in the same way that upfront extraction of its forests resource is very short-sighted, and likely to jeopardise more sustainable environmental and commercial benefits to the country and its customary landowners, (including under proposed REDD-type initiatives).

A bridge destroyed on the Kokoda Highway in Oro Province, by the floods associated with Cyclone Guba in late 2007, still neither replaced nor repaired.

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i Bank of Papua New Guinea, Monetary Policy Statement, Sept 2010

ii Private Sector Survey, Institute of National Affairs, 2008