

OPTIMAL USE OF LNG REVENUE- INVESTMENT FOR WEALTH CREATION

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Problem statement

- *How do we ensure that PNG's natural wealth is exploited responsibly and primary products processed, and that derived revenues are used fairly, transparently and efficiently to arrest levels of service delivery decline and, above all, create the foundations for employment and broad-based growth for the next 40 years?*

Vision 2050 thrust

- Vision 2050's grave concern is that the existence of excess monies onshore would affect the attainment of an economy that is based on renewable resources (70%) and less on extractive industry (30%)
- Hence, the Vision 2050 directive for the establishment of an Off-shore Foreign Currency Fund or SWF

Importance of agriculture

- Agriculture is central to the overall economy because it engages 80% of our population
- And increased productivity and output in this sector is critical as it:
 - Supplies foodstuff and raw materials to other expanding sectors in the economy
 - Provides an investable surplus of savings and taxes to support investment in another expanding sector
 - Increases the disposable income and therefore rural demand for products of other expanding sectors
 - Earns foreign exchange through exports or by saving forex via import substitution
 - Generates employment in both the traded- and non-tradeable sectors

Effects of a booming sector on agriculture sector

- A boom in one sector over a long period of time will affect the other sectors by increasing the cost structure of the economy
- The LNG and extractive industry have already triggered the drivers of Dutch Disease
- International Aid has also contributed particularly in gravitating skilled human capital towards higher paying jobs and heightening the cost of rentals
- In addition, agriculture already has its own complications—i.e. Supply-side constraints or infrastructure

Investing LNG revenues on strategic accelerators

- Given the effects of a booming sector, agriculture is set to be affected mainly through exchange rate appreciation, but this could be best cushioned via the establishment of the SWF
- Thus, the most optimal use of LNG revenues would be through the use of Infrastructure Fund to invest in rural infrastructure so as to improve supply constraints to the sector
- Infrastructure maintenance should be part and parcel of this
- Infrastructure is your first order task to addressing both market and state failure in the industry
- Freight is a major cost factor for both cash and food crops
- Infrastructure not only includes the hardware of roads, bridges, wharfs and ports, but also storage and security

Summary

- There can be many uses for the LNG revenue, but infrastructure development and maintenance should be viewed as a strategic accelerator for the industry to address both state and market failure
- Increasing the share of agriculture from 20% of GDP is going to be mammoth task
- Infrastructure is a key enabler recognised in the MTDP as key to service delivery, agriculture, other economic sectors and law & order
- Effective and strategic leadership is required in the agriculture sector