

Towards a Melanesian Way of Beating the Resource Curse

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By Glenn Banks²

Key argument: Papua New Guinea, the largest country in the Pacific Islands, is in the midst of a massive resources boom. A recent UNDP report proposes a range of policy initiatives to ensure that the benefits of the boom are delivered equitably and sustainably. Donors, including New Zealand, can assist with this, but it does require a realignment of donor programmes to match the priorities of Papua New Guinea, and the development of expertise within MFAT to allow a more nuanced engagement with the questions of connecting resource wealth to socially equitable and progressive outcomes

Introduction

In 2015 Papua New Guinea's economy is expected to grow by more than 20%, riding the back of a massive US\$20 billion Liquefied Natural Gas (LNG) project that began production last year. This will expand the economic influence of the country among the Pacific Islands – with an economy already more than 5 times the size of Fiji, the next largest – and consolidate a decade of positive growth for the Papua New Guinea economy.

At the same time though, indicators of human development – including progress towards the Millennium Development Goals (MDGs) and poverty levels – have barely moved. Household survey data showed no sign of change in Basic Needs³ poverty (just under 40 per cent of the population) between 1996 and 2009/10 (Dept of National Planning 2011, Gibson 2013), and it is unlikely that Papua New Guinea will achieve any of the universal MDGs by the end of this year (Pacific Islands Forum Secretariat 2013). 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.

Papua New Guinea then, exhibits the classic markers of the so-called 'resource curse' or the 'paradox of plenty' – the well-worn idea that extractive industry-led development can impede the social, environmental and economic transformation of a country: the resources

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³ The Basic Needs poverty line is a measure of the minimum income needed to buy sufficient food and meet basic requirements such as housing, clothing, transport, school fees, etc.

are a curse, not the blessing that common-sense tells us they should be. The onset of the LNG project then, provides an imperative to ensure that this growth will translate into improvements in human development for the bulk of the population.

This was the issue that the recent National Human Development Report (NHDR) from the UNDP Papua New Guinea country office sought to offer guidance and policy advice on. The report was drafted by a small team located within the UNDP office in tandem with the Department of National Planning and Monitoring. The team surveyed the current state of development in Papua New Guinea, reviewed relevant literature, drew on the substantial expertise and experience within the UN group (in-country and internationally), and carried out an 18-month period of consultation with government departments, non-governmental organisations, extractive industry corporates, and UN agencies. From this the report developed 33 'policy option' areas that sought to improve the links between extractive industries and more inclusive and sustainable forms of development.

Before outlining the broad intent and direction of these policy options, it is worth briefly sketching the shape of development progress in economic and social terms, in part to illustrate the specific nature of the dilemmas of development that Papua New Guinea faces, and partly to highlight the context within which the policy alternatives were developed.

A Lost Decade?

A recent Australian National University-National Research Institute (ANU-NRI) project (Howes et al 2014) reported on the first decade of the new millennium as a 'lost decade' (although they do pose it as a question) for development in Papua New Guinea⁴. The National Human Development Report (NHDR) explores the various dimensions of this apparent lack of progress, and argues for a more complicated picture: in many respects there has been progress, despite the limited achievement in other areas: "While there have been some measurable achievements in terms of improvements in human development (increases in life expectancy, per capita income and educational achievement), many of the indicators are less positive" (UNDP 2014: i). Importantly from a Human Development perspective, 'despite 14 consecutive years of economic growth, there has been little change in poverty levels in the country. In fact the level of inequality in the country has increased.' Why have the almost US\$60 billion of copper, oil and gold produced since Independence in 1975 produced so little return in terms of improvements in human development?

The NHDR report discusses some of the reasons for this 'poor performance', highlighting four:

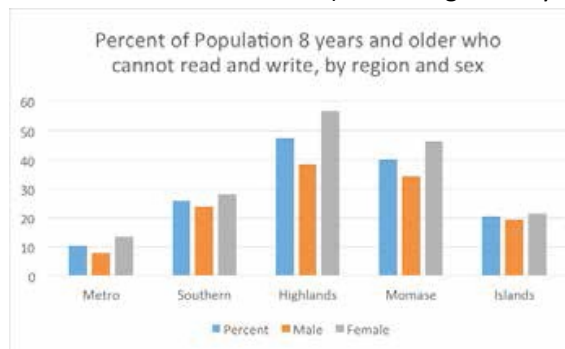
- "1) The relatively recent nature of exposure to the cash economy and to modern health and education systems in most parts of the country, which means the starting point for health and education levels was very low to begin with;
- 2) The dispersed nature of the population among the diverse, fragmented and rugged landscapes of the country which has made the extension and delivery of government services difficult;
- 3) The resource-driven growth in Papua New Guinea over the past four decades has not required large-scale mobilization of the labour-force and land (as, for example,

⁴ This is not the first time that recent developmental progress had been questioned. In 2002, AusAID referred to the 1990s as a 'lost decade', while older readers will recall the description of the 1980s as the first 'lost decade' for Papua New Guinea's development.

commercial agriculture or manufacturing does), and neither has it generated the development of a large consumer base for its products. Hence there has been no imperative – from government or from the private sector – to reach out to the various dispersed remote rural communities;

4) Sub-national governance and government capacity remains limited in many areas. This is an important theme that impacts centrally on many of the social, environmental and economic issues and linkages...” (p. 3).

The detailed assessment of progress in economic, social and environmental terms can be found in the report. Lowlights in the report include the appalling rates of gender-based violence (some surveys identified two out of three women having experienced gender-based violence over their lifetime) and the generally very low status of women across the country.



One aspect that did come through clearly was the marked variation in many indicators between and within provinces. One such example is the provision of primary health care where in 2013, the proportion of community health Aid Posts that operated during the year varied from 95% (in Western Highlands Province) to 51% (in Eastern Highlands) (Department of Health 2014). Another is the

percentage of those who cannot read and write – at the regional level over half of all females in the Highlands were functionally illiterate, while less than 10 percent of the urban population were (see Figure 1 below based on the 2009/10 Household Income and Expenditure Survey). These variations by region, province and place obviously require a complex set of development plans and processes that can appropriately respond to these disparities.

The process of drafting a National Human Development Report

Being involved in the process of drafting this Human Development Report for UNDP provided insights into the elusive notion of ‘country ownership’ of the aid agenda. As an organisation UNDP has access to the highest levels of the government, in terms of both the political and bureaucratic elements. The Chief Secretary in the Prime Minister’s Department was the official government contact, although we worked more closely, albeit sporadically, with individuals in the Department of National Planning and Monitoring. Political figures – especially the Minister of Mining and the Minister of Planning – also showed an interest in the process at times. Despite this, though, the drive for greater levels of ‘country ownership’ of the process was often a source of frustration as it was difficult to maintain the attention of government in the report and process in the face of more immediate and more personally significant processes, be they budgets, ministerial demands or departmental politics.

One of the more challenging aspects of the work was the stark realisation that the level of data quality and quantity was not able to support the sort of detailed analysis that can be found in national-level HDR’s for other countries. Initially we had hoped to develop a Provincial or even District-level Human Development Index (HDI) and more systematically assess the effects of large-scale extractive industries on local and provincial HDI, but it rapidly became clear that there was a dearth of data (economic and social) to support such an exercise in any meaningful way. The 2011 Census analysis only became available right at

the end of this process (August 2014) – and even then questions have been raised regarding its accuracy – and for most other measures at sub-national levels there was a complete absence of appropriate quality data. Even the data for tracking key MDG are poor: the Maternal Mortality Rate (MMR) for example is highly contested with widely varying estimates (see Mola and Kirby 2013). This was one area where the NHDR came out strongly in support of current initiatives by government to collect and produce higher quality data for planning purposes.

Working within the UN system provided insights into the intricacies of such a large global institution. Most of the 13 different UN agencies working in Papua New Guinea are stretched in terms of resourcing, and given the NHDR was led by UNDP (as all HDRs are), their levels of engagement with the project varied considerably. More distant offices and agencies – from New Delhi to New York, Bangkok and Suva – also contributed significantly to the report at times, bringing different expertise, perspectives and interests to the project. Integrating these different approaches and concerns – although they were not competing or mutually exclusive – did add a layer of complexity to the process, but they also ensured that the expertise of specialists from across a broad range of aspects of human development added considerably to the final product. In the end, I was satisfied that the report did provide a view on the extractive industries and development that largely reflected a Melanesian perspective rather than a more generic, universal one. The tensions between the context-specific and the global (such as some of the more simple economic prescriptions for handling resource revenues) came through perhaps most clearly in the 33 ‘policy options’ (the report explicitly steered away from ‘recommendations’), where global experience and policy was tempered by the pragmatic inputs of local stakeholders more familiar with the specifics of Papua New Guinea society and politics.

A Melanesian approach to the ‘resource curse’

Building on both Papua New Guinea’s 40 year history of engagement with large-scale extractive industry, and recent global experience and policy experiments, the HDR puts forward a broad range of suggestions for ways to better connect the extractive industries with improvements in broad-based human development. The critical place of the sector in the country’s current economic profile (90% of the country’s exports this year will be derived from it) meant the report focused on policy related to the mineral resources. Overall the report found that while the extractives sector had delivered substantial economic benefits to local actors and national coffers, it had also sparked civil strife, caused massive environmental damage, arguably distorted the economy, and brought about a range of negative impacts on communities. The emphasis of the policy section then was less on the macro-economic aspects and outcomes of the sector and more towards seeking ways to harness the resources boom to improve the social and economic lives of people, and reduce the social and environmental damage the industry creates.

The policy options were structured around a recent UNDP Strategy on Extractive Industries and Human Development (UNDP 2012), and covered suggestions that went from the development of policy and regulation, to ways to improve social and environmental outcomes. Some policy options – indeed many – were aimed at providing novel options for government, building on successful recent initiatives and seeking to bring gradual shifts in the thinking around the role of the extractives industry in the country’s development. Four broad areas were seen as being of particular importance in terms of the links between extractives and inclusive, sustainable forms of human development.

At the macro-level, the report notes that the fiscal regime with respect to the extractives sector appears to be relatively stable, and that it has been reviewed to ensure it is consistent with international practice. The question of state equity in the sector (through state ownership of the companies extracting the resources) needs a rigorous review as the strongly nationalistic streak among politicians can dismiss discussion of the risks associated with investment in the sector. 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 some initiatives that sought to do this. In the long-term, the much talked about Sovereign Wealth Fund (SWF) could be critical (as it has been in Timor Leste, Chile and Ghana) for managing the volatility of revenue flows from the sector, but there are real concerns that its current form is moving away from the independent, arms-length entity that best-practice argues is most effective at passing on a share of resource wealth to future generations.

The particularities of the Melanesian context dictated a range of policy areas concerned with inclusiveness, and improving the involvement of communities in the extractives sector. First, it was suggested that there was a need for the greater involvement of women and marginal groups in the development of mineral policy and in the negotiations for specific resource operations. Most fundamentally, the report called 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 (see Donigi 1994). Most recently the proposed Minerals Act on Bougainville vested mineral ownership in landowners, operationalised through a veto power over mineral exploration within customary land. Local mineral ownership, though, would almost certainly be difficult to put into practice: if nothing else, the industry would need to be certain that the processes and procedures protected their multi-billion dollar investments from the vagaries of landowner politics. Finally in terms of local communities, the report proposed an independent 'Ombudsman' with the power to investigate and rule on conflicts within the sector – reaching not just state-corporate and community-corporate conflicts, but the more frequent state-community and intra-community conflicts. This would require a lot more detailed work (in terms of staffing, location and ambit), but could provide recourse for those negatively affected by the processes around resource developments in a way that isn't currently available.

Any discussion of extractives and development today almost inevitably leads to an examination of governance and institutions (see Bebbington 2012). 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) showed so effectively for the health and education sectors. What they also showed, though, was that there had actually 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 better 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 NHDR flagged were the need for greater levels of integration at the local-level between 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.

The environmental aspects of the extractive industries present the greatest challenge to broader notions of sustainable and inclusive human development: the Ok Tedi mine in Papua New Guinea has one of the world's most infamous examples of how not to manage environmental effects (Kirsch 2014). The NHDR discussed these effects in some detail, and argued that if, as is likely, the country continues to rely on these massive operations, there is a need for regulators to ensure that at all times the corporations utilise leading technologies for environmental management, and that there is scope for more innovative approaches, including the new biodiversity offset program being trialled by ExxonMobil in the context of the PNG LNG project.

The NHDR is very clear that many of these policy arenas require urgent attention, or opportunities will be lost. The report notes that its success will be measured by the actions it sparks. There has already been feedback from within government that they are interested in talking further with UNDP to put into place some of the ideas the report proposes. And there are also other reasons to be optimistic, with indications – new policies and regulations, and new ways of operating by the government and by the companies – that suggest that this resources boom will produce more positive development outcomes for Papua New Guinea than it has had in the past.

A role for New Zealand?

The extremely positive economic forecast for Papua New Guinea⁵ will undoubtedly affect New Zealand in one form or another. For one thing, it will mean more New Zealand businesses will be looking to get involved in the country. And the expanding economy will provide opportunities for more New Zealanders to join the significant number already living and working there.

Papua New Guinea is also the second largest recipient of New Zealand aid, with around \$20 million spent annually in the country from our aid programme, although in per capita terms this is amongst the lowest in the Pacific. Given the economic growth associated with the private sector-led nature of the extractives boom, in many respects the current aid focus on facilitating economic growth via the private sector is misplaced: private sector growth is not the issue – redistribution, governance and the social sectors should be the focus. With the fastest growing economy and the highest rates of poverty in the Pacific⁶, Papua New Guinea doesn't need help with fostering the growth of the private sector (whether or not it coincides with New Zealand's own interests – such as the dairy industry), but rather with better translating resource revenue into inclusive forms of sustainable development.

Finally there is a clear need to reinforce the very thin knowledge and expertise within MFAT and the New Zealand aid programme of the extractives sector and how it impacts on development prospects across the Pacific (and elsewhere, especially Latin America and

⁵ Although by the end of 2014, the drastic fall in commodity prices has had economists halving the GDP impact of the first year of gas production, underlining the need for effective management in the face of the acute volatility of the minerals sector.

⁶ There are more living under a Basic Needs poverty line in Papua New Guinea than the entire population of the rest of the Pacific.

Africa). Other agencies (including UNDP) and donors (DfID and the Australian aid programme are two examples) have belatedly come to realise the significance of a better understanding of extractives and their linkages to development. Given their current and future significance across the Pacific, the New Zealand aid programme would do well to improve its knowledge of the extractives sector and the complexities involved in managing economies and societies that are heavily resource-dependent. Sector-specific expertise related to encouraging more effective 'social responsibility', the gendered impacts of resource industry impacts, and managing sovereign wealth funds for social equality, for example, need to sit along support for priority areas such as the governance of the health and education sectors. In this way, the benefits of extractives 'booms' can better create sustainable improvements in human development and social equality in the region.

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