

# 2014 NATIONAL HUMAN DEVELOPMENT REPORT

*From Wealth to Wellbeing: Translating Resource Revenue into Sustainable Human Development Papua New Guinea*

## EXECUTIVE SUMMARY

Papua New Guinea (PNG) stands at a critical moment in its development. With Gross Domestic Product (GDP) growth of over 20 per cent expected for 2015, following the start of production from the massive PNG Liquefied Natural Gas (LNG) project, the country has a unique opportunity to leverage significant sustainable and equitable improvements in levels of health, education, income and other elements of inclusive human development. At the same time, the country also faces considerable risks. If poor choices are made, the impact of the high growth rates will be limited, even detrimental to the development prospects of Papua New Guineans and the nation and the lives of people living in poverty. This report aims to provide information and national as well as international case study experiences to assist decision-making in the country. The report has four purposes: (1) Review the extent to which Papua New Guinea's revenues from extractive industries have led to practical human development outcomes; (2) Reveal lessons from other countries that can be useful for Papua New Guinea; (3) Highlight some specific innovations from Papua New Guinea's experience that can contribute to development in other countries; and (4) Stimulate, inform and shift the debate in the country to enable leaders to make appropriate choices for the wellbeing of citizens.

Papua New Guinea's 40 year history of Independence has been dominated by the extractives sector. Large-scale mine and oil production (worth at least K150billion since Independence) has driven formal sector growth, underpinned budgets that have improved health and education outcomes, as well as provided significant improvements in incomes and livelihoods for some. At the same time however, this production has sparked civil strife, caused massive environmental damage, arguably distorted the economy, and brought about a range of negative impacts on communities. Valuable lessons are being learnt (and have potential international relevance), but still the risk remains that the existing model of economic growth in the country will not deliver sustained improvements in wellbeing for the majority of the population.

The report reviews the state of human development in Papua New Guinea in terms of the three pillars of sustainable development – economic, social and environmental – and specifically examines the ways in which the extractive industries have contributed – positively and negatively – to these related but distinct pillars. 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. 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.

There is much that is positive about the contribution of the extractives sector to Papua New Guinea's development, including significant revenue flows to government, cutting edge innovations to enhance revenue and transparency at the national level, as well as the involvement of some communities in some operational decision-making. There remains however, considerable scope for improvement. Other positive impacts include recent initiatives addressing service delivery, governance, and policy direction that provide useful guides to future action.

The report reviews the significant amount of national and international experience and recent policy development throughout the extractives sector, much of which has been driven by the realization that mineral and oil wealth has not always been a positive force for a country's national development. The term 'resource curse' captures the international view that growth based on a dominant extractives sector can, if not managed well, lead to a range of negative effects, including stunted economic growth, corruption, weak institutions, conflict, human rights abuses, and poor human development outcomes. There is also, however, experience that suggests the 'resource curse' is not inevitable: that there are particular political, institutional and economic mechanisms that can be used to better connect resource wealth with sustainable human development. Papua New Guinea is on the frontline of innovation in some of these areas, and valuable lessons can inform international best practice and decision-making.

Based on a review of the state of human development and the experience of the extractives sector in Papua New Guinea, along with case studies and lessons from the national and international experience, the report presents a range of policy options – framed around a United Nations Development Program's Strategy on Extractive Industries and Human Development. This aims to assist in better translating minerals and oil revenues into more sustainable and inclusive forms of human development. For this to happen, countries should seek to capture as much of the resource revenue as possible through transparent and accountable systems – without losing the foreign investment – and use this to boost human development through effective service delivery to the largely rural-based population, while working to reduce the negative social, economic and environmental impacts.

Policy options to do this include ways of making policy frameworks and operation-specific negotiations more effective and more inclusive, refinements in institutional governance and service delivery, improvements to transparency and management of revenue flows (though mechanisms such as the Sovereign Wealth Fund and the Extractive Industries Transparency Initiative), the establishment of a formal sector-specific grievance mechanism, a focus on building economic diversification into non-extractive sectors (especially agriculture and tourism), novel environmental management approaches, better integration of corporate community development contributions, and improvements in data collection and management processes.

Taken singularly, or preferably as a whole, these options provide the basis for enhancing the contribution of the sector to sustainable human development. They are offered as a basis for public and policy dialogue and debate, which should then form the basis for action. The report recognises that it is only the timely actions of stakeholders in the country – governments, leaders, politicians, non-governmental organisations (NGOs), development partners, citizens and the private sector – that will make a practical and real difference to human development outcomes in Papua New Guinea. Papua New Guinea has a unique window of opportunity to make some of these decisions now. The country needs to grasp this opportunity.

*This is an extract from the 2014 NATIONAL HUMAN DEVELOPMENT REPORT "From Wealth to Wellbeing: Translating Resource Revenue into Sustainable Human Development Papua New Guinea". To download the full report please visit [www.pg.undp.org](http://www.pg.undp.org)*