



FROM EXTRACTION TO INCLUSION

Changing the Path to Development in Papua New Guinea

Frequently Asked Questions (FAQs)

These Frequently Asked Questions (FAQs) summarize some of the key findings and analysis in the report *From Extraction to Inclusion, Changing the Path to Development in Papua New Guinea*.

Hasn't PNG seen solid economic growth the last few years—and doesn't this mean that PNG's approach to development is working?

Economic growth is most often measured using Gross Domestic Product (GDP) - the monetary value of all the goods and services produced in the formal economy every year.

While PNG's headline rate of GDP growth has on average been quite strong in recent years, the figures are misleading for a number of reasons.

Firstly, the figures have been inflated by the one-off spending on the construction phase of the PNG LNG project.

Secondly, the headline figures are not adjusted for population growth. PNG's population is growing rapidly and GDP per capita has shown only modest growth over the past couple of decades.

Finally, and most importantly, GDP data is not a measure of development. GDP does not account for the negative external costs of economic activity (like environmental damage or social unrest) and does not show how wealth is distributed. GDP doesn't tell us much about living standards for most people in PNG, but other measures are much more revealing.

PNG is among the lowest of its Pacific Island neighbours in its rate of poverty, in its position on the Human Development Index, in its rate of access to health care and in its rates of child mortality. Access to basic services such as water, electricity and health services are also low, and child malnutrition is rife throughout the country. While there have been some improvements, such as in life expectancy and in access to education, these are small gains in light of PNG's fallings in so many other areas of development.

Doesn't the PNG economy depend on mining for most of its foreign earnings?

The mining and petroleum sectors currently account for around 85 per cent of the value of exports from Papua New Guinea, however this does not equate to a strong earnings position or a strong foreign exchange position.

Most of the revenue and profits from natural resource extraction in PNG are banked offshore. This means that despite a strong trade surplus, PNG's foreign exchange reserves fell by about 50 per cent between 2012 and 2017. The situation has been so serious that PNG has had to seek a number of bailouts from foreign governments and multilateral banks.

As with GDP, strong foreign earnings do not tell us much about what is happening in terms of living standards for most people in PNG.

Without mining and other resource extraction won't government revenues dry up?

There are a number of myths about the importance of natural resource extraction to the economy of Papua New Guinea. One of these concerns the contribution to government revenues, another relates to the levels of employment it provides.

Natural resource extraction makes a relatively modest contribution to PNG's national budget.

Between 1978 and 2016 extractive sector taxes have averaged just 13 per cent of PNG's total tax revenues. This is a relatively low number for a sector which is supposed to be stimulating and funding the nation's development. It is also low, considering that these sectors account for approximately 80 per cent of exports.

In recent years though, the low tax take has become even more pronounced. Between 2014 and 2017 the government's total tax revenue hovered between 10 and 12 billion Kina; the extractive industries' contribution was just 6.4 per cent in 2015, 3.7 per cent in 2016 and 5.9 per cent in 2017 (excluding salary and wages tax by sector employees).

These shockingly low figures stand in stark contrast to the high levels of earnings for the companies involved in the extractive industries and are the result of aggressive tax avoidance and tax evasion strategies.

The informal economy is great, but surely most rural people don't pay any taxes?

It is incorrect to say most people don't pay any taxes. There are a range of sales taxes and import duties that people have to pay on almost everything they buy in the shops from food items to kerosene to building materials. In 2018, taxes on goods and services contributed 37.5 per cent of total government revenue, compared to 10 per cent from extractive sector corporate income tax.

Furthermore, strengthening the sustainable domestic production of goods and services in agriculture and wood products would allow more of these to be delivered through the formal economy and create additional tax revenues.

Changing direction as recommended in the report seems like a radical approach—is there any precedent for this sort of approach in PNG’s history?

At both a policy level and in practical terms there are clear precedents in PNG’s history for an approach to development that is centered on agriculture and inclusion.

Agriculture has a long and successful history in the country. People have inhabited the islands that make up PNG for about 50,000 years and it is thought they were among the first people in the world to begin practicing organised agriculture about 10,000 years ago.

At Independence in 1975, agriculture contributed around 50 per cent of PNG’s exports by value, and the Eight Aims adopted by the PNG House of Assembly in 1973, emphasized concepts such as self-reliance, a more equal distribution of economic benefits, Papua New Guinean control of the economy and small-scale artisan production as the basis for the country’s development.

These aims were sanctioned and extended by the Constitutional Planning Committee (CPC), a committee comprised of 15 parliamentarians, established in 1972 to set PNG’s post-independence priorities. The committee’s 1974 report included a chapter on what it called the ‘National Goals and Directive Principles’ (NGDPs). According to the NGDP Statement, the eight aims could be encapsulated in three ideas: equality, self-reliance and rural development. The NGDP’s were later enshrined in the Preamble to the Constitution.

Despite these clear policy dictates, in the 1980’s natural resource extraction began to really expand, with the opening of the Ok Tedi, Porgera and Misima mines and then the doubling of log exports in the 1990’s. With the subsequent development of further mines and petroleum projects, the contribution of agriculture to PNG’s exports has been allowed to dwindle to just 10 per cent in value terms.

The government wants a bigger stake in future large-scale extractive projects, won’t that solve the problem?

Taking a larger stake in future natural resource extraction projects is not a silver bullet that will ensure better development outcomes. There are a number of serious problems with such an approach:

- As PNG has already experienced, owning a stake in a mine or other extraction project is not a guarantee of financial returns. Many projects are on paper loss-making while profits are banked offshore by parent companies.
- Increasing government revenues is also no guarantee of positive development outcomes, as PNG’s recent history shows. Government revenues are at risk from both mismanagement and corruption.
- However large the government stake in extraction projects, it has shown itself incapable of managing the environmental and social costs of such activities. Indeed, the larger the

government stake the greater the incentive to turn a blind eye to issues like the destruction of river systems, breaches of human rights and tribal conflicts.

- Even with a greater government stake, large-scale natural resource extraction will remain enclave activities with little connection to the rest of the economy and will continue to employ small numbers of people.
- Lastly, a development strategy focused on extracting natural resources does not invest on people and does not build a sustainable economy and society.

In contrast, an inclusive and people-orientated approach to development puts much greater control into the hands of individuals, their families and communities to deliver the development that is appropriate to them.

Doesn't PNG need private investment in order to develop?

While western donors, banks and international finance institutions claim that attracting private investment for the extraction of natural resources or expansion of industrial agriculture is the way for PNG to “develop”, there are a myriad of paths that the country can follow that don't require privatizing the land. The report dispels the notion that exploiting more land is necessary to spur economic growth. In Papua New Guinea, the informal economy and the agriculture sector highly depend on the maintenance of the customary land tenure system, which provides home and livelihoods for the vast majority of the population. Whereas in recent decades logging and mining have had devastating human and environmental consequences, there are clear alternatives to these extractive activities – for example establishing in-country processing of wood rather than exporting round timber, investing in domestic trade, storage, and transformation of agricultural and forest products, promoting high value export commodities such as cocoa or vanilla. Such activities will require private investment, which will have to be guided, supported and incentivized by the government.

The report raises the alarm on the attack on customary land and the attempt to privatize land as a way to boost economic growth. Doesn't the country need individual land titles to provide land security and allow investment?

The report does not dispute the vital importance of land tenure security. What is disputed is the claim that transforming customary land tenure into private titles is the path to tenure security. There is much evidence from around the world, including comprehensive studies by USAID and the World Bank, showing that customary systems can provide adequate tenure security and that past efforts to convert customary systems into a western private title system can result in social and economic displacement. The idea that privatizing land will bring development comes in part from the – now largely debunked – claims of Peruvian economist Hernando de Soto, that “securing land rights” via private titles would improve access to credit, agricultural investment, and environmental stewardship. Research around the world reveals that private titling has not increased access to credit and loans. The often repeated claim that private titles offer tenure security while customary systems remain insecure, is not substantiated by any evidence. On the other hand, customary land tenure systems actually do provide tenure security and land rights,

as well as mechanisms for sharing and preserving natural resources for future uses. These don't consider land as an individual's property that can be bought or sold but instead value it as a common good – an ancestral asset with deep social and cultural significance, which must be preserved for future generations. While research has long shown the value of customary systems, some aid agencies and financial institutions fail to recognize the evidence and continue to advocate for and support the privatization of land and the creation of land markets. The lack of evidence of development outcomes associated with private titling, along with many examples of the detrimental impact on people and communities, makes it clear that the privatization of land has nothing to do with fighting poverty or improving livelihoods. It is just another avenue for further colonization and exploitation of natural resources for the benefit of few private interests and corporations.

So what needs to be done?

It is essential to preserve sustainable livelihoods and support a truly green economy that protects natural resources for future generations and is able to curb carbon emissions and climate change. The government of PNG must focus on a development path that serves people instead of one that takes the land away from them for corporate profits. The country has important assets. It still has a largely rural population, living on their own land with the skills and ability to work, produce, trade, and innovate in a way that will improve their lives and those of future generations. PNG's wealth of natural resources can continue to be the basis of people's livelihoods, provided these are managed by and for the people in a sustainable, responsible, and wise way. The change of course requires important policy shifts for the government, which should start by halting its attack on customary land tenure, which is the basis of the village economy and the livelihood of most of the population.

The next step is to reject new large-scale resource extraction projects, at least until genuine reform of the governance regimes is accomplished. In the forestry sector, a ban on round log exports is urgently needed. Local communities must be placed at the heart of future forest management. Downstream processing of sustainably and ethically produced timber products should be the priority. Halting the expansion of oil palm is another priority that must come with public policy and investment in appropriate agriculture that benefits farmers, feeds the country, and uses natural resources in a responsible way. There are hopeful signs that PNG policy makers have started the necessary shift but a much greater and coordinated government approach across multiple sectors is required.