Governance for growth: priorities for a reform-minded Papua New Guinea government

Satish Chand

This paper argues for improved policy choices for growth of incomes as the priority for a reform-minded Papua New Guinea government due to take office following the elections in mid 2007. Amongst the policy initiatives are a commitment to improved governance including a campaign to clean up corruption; greater investments in public infrastructure to deepen the trade and cultural bonds between the disparate parts of the nation; concerted efforts at reducing the costs of doing business to raise the level of investment and employment generation; and placement of an arms-length, results-based, evaluations and monitoring framework to track progress on each of the above-mentioned. Some thoughts on the role an active donor community could play are also provided.

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This is Year 2020; I have spent the last week in Port Moresby reviewing the progress made on a number of economic and social indicators since 2006. The assessment is a highly favourable one: the nation has grown by 2 million people to a total population of 7.5 million over the past 14 years; per capita income, having grown at an annual average rate of 5 per cent since 2006, has doubled to US$5,200 (at 2006 prices); significant inroads have been made into reducing poverty, prevalence of communicable and non-communicable diseases have fallen dramatically, while the spread of the HIV virus has been halted; and, these gains are evident in the improvements in a number of social indicators of development. Papua New Guinea now, unlike in 2006, is a deeply integrated nation state with a national all-weather road network linking every provincial capital on the mainland and a regular shipping service running between all the coastal cities. Port Moresby, the nation’s capital, is a thriving business centre with a vibrant crime-free night life that now hosts half a million tourists annually. For a city with a resident population of just half a million, this is an enviable achievement given that it hosted less than ten thousand (genuine) tourists only 14 years ago.
While the achievements made over the past decade and a half are truly remarkable, particularly when many commentators had written the nation off only 14 years ago, there is little reason for complacency. Per capita incomes are still a long way below neighbouring Asia, poverty and HIV/AIDS are far from being eradicated, while basic healthcare and primary education are still to reach every child in this resource rich nation. A number of mines are at the end of their commercial lives and a couple of new ones have since been opened. However, minimising the social and economic consequences of these mining developments remains a challenge; although the lessons learnt from the closure of past mines such as Ok Tedi and Porgera provide reasons for optimism.

The nation of Papua New Guinea can attribute at least part of its success of the past decade and a half to the large windfall gains from its extensive resource rents, from the liquid natural gas (LNG) project in particular. The remainder, and clearly the bulk, of the credit for the economic success is due to the excellent ‘governance for growth’ initiative of the government that took office in mid 2007. In fact, many economic commentators now argue that the economy would still have performed strongly had the gas project not come on line, as many feared during its formative years back in 2005–7. The prioritisation of effective government, the protection of property rights of every investor, the extension of basic public services such as primary education and health care to the nation at large, and a clampdown on corruption early in the period have delivered handsome dividends in terms of growth of employment, private investment, and output. The improvements are evident in the gains made in the ease of doing business in Papua New Guinea and in the average life expectancy of the population (Table 1). The ultimate credit for these achievements must go to the foresight of the political leadership that expressed a vision for growth in 2007 and pursued it with appropriate policy choices.

Unlike their predecessors, governments since 2007 have enjoyed political stability and invested mineral rents in the expansion of infrastructure and improvements in the delivery of health and education services to the population at large. The nation now is intricately linked via an extensive network of roads, ports and jetties, and airports that is complemented by an equally extensive telecommunications infrastructure. Producers in the Highlands and the Islands now supply

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<tr>
<th>Table 1</th>
<th>Papua New Guinea: economic and social indicators, 2006 and 2020</th>
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<tbody>
<tr>
<td>Indicator</td>
<td>2006</td>
</tr>
<tr>
<td>Per capita income (US$)</td>
<td>2,600</td>
</tr>
<tr>
<td>Population (million)</td>
<td>5.5</td>
</tr>
<tr>
<td>Life expectancy (years)</td>
<td>56</td>
</tr>
<tr>
<td>Adult literacy rate (per cent)</td>
<td>57</td>
</tr>
<tr>
<td>Prevalence of HIV/AIDS (per cent)</td>
<td>2</td>
</tr>
<tr>
<td>Poverty (per cent)</td>
<td>38</td>
</tr>
</tbody>
</table>

* The poverty figures are for the proportion of population below the national poverty line.

**Sources:** Data for 2006 is from World Bank, 2006. *World Development Indicators*, World Bank, Washington, DC. Available online at http://devdata.worldbank.org.; those for 2020 are the author’s speculations.
food for domestic consumption and exports. Service delivery has improved following the return to meritocracy in the bureaucracy and the installation of an independent anti-corruption and audit commission. Crime has dropped to levels seen in neighbouring Fiji, and tourists are able to crisscross this diverse nation at a fraction of the cost of only 14 years ago. The next generation of Papua New Guineans can expect a quality of life that their parents only dreamt of at independence. In trying to maintain the course charted over the past decade and a half, it is important that lessons be drawn on what was done right in the years gone by. This ‘rear vision’ perspective has much to offer in terms of policy choices in charting the future.

Let me now bring you back to 2007, possibly with a chuckle from the cynics. What has been sketched above is a vision, and as argued later, a realisable one. The challenge posed here is to strategise now so as to realise this vision. Let me repeat that the scenario painted above is neither a wish nor a forecast, but one that is achievable given the current state of knowledge on policies and strategies for development in a market-based economy. Per capita income in Papua New Guinea as of 2006 was equal to the per capita income of Botswana in 1981 (Figure 1). Botswana in 1981 had many similarities with contemporary Papua New Guinea, which gives me belief that the later can replicate the record of the former. Importantly, the rapid growth of Botswana was due to policy choices with obvious lessons for Papua New Guinea. Per capita income of Botswana grew at approximately 5 per cent per annum from 1981; by 2005 it had caught up with the per capita income of Malaysia, another rapidly growing and moderately resource-rich economy. Nigeria provides a sharp contrast, but the recent growth record of this nation suggests that turnarounds are possible.
My challenge now is to back-cast from the vision of 2020 to draw up policies that need to be put in place now, that is in 2007, to achieve the scenario painted. This is opportune given the elections of mid 2007, which will bring in a government with the mandate to govern for the following five years. Assuming that each government henceforth lasts their full term, my vision would fall in the mid term of the third government from now.

The key message is that the ‘dream of 2007’ is realisable, but only with the choice of appropriate policies as demonstrated by the past achievements of Botswana and Malaysia. The key to such an achievement is improved governance; thus the mantra of ‘Governance for Growth’.

Areas for consolidation

One immediate priority is that any regressions from good policies must be avoided, possibly with the use of ‘backstops’. The current government, for example, has enjoyed political stability on the basis of the legislative changes introduced by the previous government. Macroeconomic stability has been the major achievement of the current government but one that could easily be squandered by the next or any future government. These achievements could be protected from slippage through conscious choice. The Fiscal Responsibility Act (2006) that was passed in August could be expanded to mandate use of future windfalls from mineral rents for investment into infrastructure, education, and health. The Public Finance (Management) Act of 1995 could be amended to require regular and timely tabling of information for Parliament on indicators of governance performance, as supplied by the World Bank. The International Monetary Fund could be invited to monitor Papua New Guinea’s reform agenda through a ‘Policy Support Instrument’. The Public Finance Management Framework could be amended to ensure that the government maintains debt levels at less than 50 per cent of GDP and budget deficits in any year are restricted to a maximum of 3 per cent of GDP. While future governments cannot be restrained from changing these acts of parliament, greater transparency in how the windfall gains are used is likely to be a significant deterrent against repeal of this ‘fiscal responsibility’ legislation. Greater transparency in how public funds are used, together with legislated public access to this information, through freedom of information provisions, could increase the longevity of fiscal responsibility legislation.

Political competition in Papua New Guinea has revolved around personalities and has often been canvassed around clan, regional, or client-patron partitions. These affinities are fluid and thus have to be continually cultivated and nurtured to maintain alliances to gain and retain power (Nelson 2006). This form of politics has encouraged rent seeking and has often been divisive. Political competition based on alternative visions of the contestants has the potential to break down the existing divides and possibly unify the nation. The major political parties contesting the elections could be encouraged to provide their vision for the nation, possibly in the form of a party manifesto. Such manifestos could provide the basis for future Medium Term Development Strategies (MTDS). The motivation for saying this has several parts, including

- allowing voters to express their preference by voting for the espoused vision rather than for those candidates offering the largest payoffs if elected
- expediting the formulation of a MTDS, and
- getting a feedback loop going such that those winning office have the incentive to deliver on their promises.
An independent monitoring framework would be necessary to achieve the last goal. The timeline implied is in sharp contrast to current practice where the MTDS is formulated and put through parliament by mid term, thus limiting the time and resources available to the administration to deliver on its commitments. This form of political competition could, over time, shift the focus of politics away from highly localised issues to those based on the ideology of the contestants for office.

To be able to undertake the tasks required of it, the incoming administration needs legitimacy. A government lacks legitimacy when it is seen by the population to have taken office via illegitimate means. Therefore, high priority has to be placed on ensuring that the forthcoming elections are both ‘fair and free’ and perceived to be so. While Papua New Guinea has an enviable record (compared to its immediate neighbours) in maintaining democracy and living by the constitution put in place at independence, the 2002 election was marred by violence and several subsequent court challenges. There is a perception that elections in Papua New Guinea have become less ‘fair and free’; an issue that has to be addressed this time round. This is an area where the donor community, by vetting elections, can be of considerable value.

As the first post-independence government that has lasted the full five-year term of office, the present government has enjoyed political stability. Together with favourable changes in the terms of trade during its time in office, this political stability has provided the foundations for fiscal discipline. Consequently, official interest rates are at a historical low, inflation is low and stable, and the kina is stable. Foreign exchange reserves are also at a record high and external debt, at less than 25 per cent of GDP, at a record low. However, the existing foundations for political and macroeconomic stability will have to be entrenched to ensure higher rates of growth of income.

The ground work for political and policy stability was put in place by the previous government. Amongst its major policy initiatives were: the Political Parties Integrity Bill (2001) that had a pivotal role in ensuring political stability; the Central Banking Act (2000) that allowed for independent monetary policy; and the Banks and Financial Institutions Act (2000) that had a critical role in the recuperation of the financial sector.

The fiscal discipline that has been maintained in the recent past has been critical to ensuring that interest rates remained low. The fiscal discipline has been a significant departure from the past where government borrowings from the private sector put upward pressure on interest rates while borrowings from the Central Bank meant higher rates of inflation. Continuing stable and low interest rates and a stable kina requires maintaining fiscal discipline and central bank independence.

The resource boom that coincided with the last electoral cycle had been fortuitous, providing revenues well in excess of budget forecasts (Chand 2004). Unlike its predecessors in office during the mineral boom of the early to mid 1990s, this government has resisted the urge to spend the windfall but instead used it to retire debt. However, resource windfalls are likely to continue. The 2020 vision set out above assumes this to be the case. The boom in foreign exchange earnings, together with continued donor support, are likely to present ‘Dutch disease’ consequences; thus the demand for good macroeconomic management is likely to intensify. Policymakers need to remain on guard in sterilising the large inflows of foreign exchange, while their political masters have to resist spending the proceeds—particularly to consolidate their electoral base. While much of the proceeds of any resource windfall could be invested—
particularly in expanding the human and physical capital stock of the nation so as to position itself for faster income growth in the future—some could be saved in the form of foreign exchange reserves.

While fiscal discipline and the ability to mitigate the potential ‘Dutch disease’ effects of aid and mineral receipts are critical for continued growth in income, concerted efforts will need to be made to spread the benefits of this growth. Clearly, the favourable terms of trade will not last indefinitely and the mineral and gas deposits have finite lives. There is thus a strong argument for capitalising at least some of the proceeds from mining to create the capacities for sustained growth.

Despite the achievements listed above, access to basic services such as primary health care, education, and transportation infrastructure remains poor in much of the country. Growth of income, though on a rebound, is still well short of the 8 per cent required to reach the vision espoused for 2020. Such growth, in addition to requiring macroeconomic stability, also requires greater levels of investment than what prevails currently (Chand 2006).

The art of the possible

What can Papua New Guinea achieve with the best of policies over the next decade and a half? The question is that of the possible rather than a forecast. Given the time lag between adoption of policies and the ensuing outcome, a long-term perspective must be taken. The time horizon chosen for the outcomes is 2020. While this choice is arbitrary, it provides the time frame necessary for policies to deliver outcomes. I also assume that policy choices remain consistent for the next 13 years—a necessary condition for effective implementation. The choice of the time horizon, however, is the least of the concerns. The difficult problem is in creating a time path for the outcomes, contingent on policy choices. The most favourable outcomes, given the best policy choices in line with the current state of knowledge, are considered using the experience of Botswana. The implied progress in per capita income is then compared with another star performer, Malaysia.

Papua New Guinea has a lot in common with Botswana. Both are former British colonies. Botswana gained independence from the United Kingdom on 30 September 1966 while Papua New Guinea gained independence from Australia on 16 September 1975. Both have a heavy dependence on minerals for income and exports, and both have high income inequality and urban unemployment. Both have had robust democracies since independence, particularly when compared to their neighbours. At independence, both had poor social indicators of development, collective ownership of land (but not livestock), and strong tribal and chiefly systems. While Botswana is considered to be homogeneous from an ethno-linguistic perspective, the contribution of this factor to economic growth has been judged to be minimal. Indeed, the two variables could be jointly determined (Acemoglu et al. 2001). In sharp contrast to Papua New Guinea, the existing ethnic, regional, and tribal affiliations in Botswana were downplayed by the political leadership. Also amongst the differences is the fact that Botswana is a relatively flat, semi-arid and land-locked nation in Africa while Papua New Guinea is a mountainous, tropical nation located in the Pacific Ocean. Botswana has a legal system based on Roman-Dutch law and local customary law, while Papua New Guinea has its legal system based on English common law. As of 2006, Botswana was one-third the size of Papua New Guinea in terms of population. Importantly, as of 2006 Botswana had one of the highest rates of HIV
Table 2  Basic information on Papua New Guinea, 2005, and Botswana, 1981, 1994 and 2005

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<tr>
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<th>Papua New Guinea</th>
<th>Botswana</th>
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<tr>
<td>Land area (’000 km²)</td>
<td>453</td>
<td>567</td>
</tr>
<tr>
<td>Forest area (sq. km)</td>
<td>294,370</td>
<td>..</td>
</tr>
<tr>
<td>Population (million)</td>
<td>5.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Rural population (per cent of total population)</td>
<td>87</td>
<td>81</td>
</tr>
<tr>
<td>HIV prevalence rate</td>
<td>1</td>
<td>1st case</td>
</tr>
<tr>
<td>(per cent, and year of data)</td>
<td>37 (2002b)</td>
<td>..</td>
</tr>
<tr>
<td>GDP per capita, PPP</td>
<td>2,505</td>
<td>2,591</td>
</tr>
<tr>
<td>(constant 2000 international $)</td>
<td>19</td>
<td>36</td>
</tr>
<tr>
<td>Gross fixed capital formation (per cent of GDP)</td>
<td>101</td>
<td>111</td>
</tr>
<tr>
<td>Merchandise trade (per cent of GDP)</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Aid (per cent of GNI)</td>
<td>(1994c)</td>
<td>30</td>
</tr>
<tr>
<td>Cost of business start-up procedures (per cent of GNI per capita)</td>
<td>(2004)</td>
<td>..</td>
</tr>
<tr>
<td>Road (km and paved in parenthesis)</td>
<td>19,600 (686)</td>
<td>..</td>
</tr>
<tr>
<td></td>
<td>(8,867)</td>
<td></td>
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a data accessed online from http://www.avert.org/aidsbotswana.htm
b http://models.wider.unu.edu/africa_web/bw_intro.php; c data from CIA Factbook, accessed online.

infection in the world—a path that Papua New Guinea needs to avoid and one from which it has much to learn.

As of 2006 Papua New Guinea had a number of parallels with Botswana of 1981. These include a comparable per capita income; similar average life expectancy; similar proportions of merchandise trade in GDP; a similar proportion of population living in rural areas; and similar levels of aid receipts (Table 2). Additionally, both had poor initial conditions and both are resource rich economies. Amongst the differences between Papua New Guinea in 2006 and Botswana in 1981 were the lower rate of investment (19 per cent of GDP in Papua New Guinea against 36 per cent for Botswana); and the higher rate of prevalence of HIV—the first case of HIV was discovered in 1985 in Botswana while the 2006 rate of infection in Papua New Guinea is anywhere between 1 and 2 per cent. While data on poverty for Botswana in 1981 is unavailable, some 33 per cent of the population were in poverty in 2002/3 while the 2006 figure for Papua New Guinea was 37 per cent. If per capita income in Papua New Guinea was to follow the time-path of Botswana since 1981, it would reach
US$5,600 by 2020—that is, the 1995 figure for Botswana. The question for contemporary Papua New Guinea is what must be done to achieve such an outcome.

Botswana’s success is attributed to policy choices (Acemoglu et al. 2001; Leith 2005). Botswana succeeded in avoiding the ‘Dutch disease’ effects of its mineral boom as well as any ‘resource curse’ impacts. While mineral extraction, diamond mining in particular, accounts for one-third of GDP and some two-thirds of exports, tourism, financial services, subsistence farming, and cattle-raising remain of significant and even growing importance. The exchange rate has remained competitive while government has remained small, with mineral rents invested in infrastructure, education and health, instead of being redistributed to maintain power.

Acemoglu et al. (2001) attribute Botswana’s success to the creation of ‘institutions of private property’. This, they argue, was due to the alignment of the political interests of the elite with economic policies favourable to private enterprise. Furthermore, President Khama, who led Botswana to and at the time of independence (and even while being the head of the largest tribe that sat on the largest diamond deposits), made a conscious choice to build a strong central state that survived and prospered despite the powers of the traditional chiefs. The political stability that was enjoyed in the post-independence period did not lead to abuse of office, as the office of government remained contestable. While some of these achievements were due to history, others were the result of conscious choice of the political leadership. On each of the above, the contrast with Papua New Guinea could not be greater.

**Governance for growth as the reform agenda**

‘Governance for growth’ succinctly captures the reform priorities for an incoming administration assumed to retain office for the full five-year term. For the purposes of this paper, governance refers to the exercise of authority vested in the office of government by the nation. Leadership, the executive in particular, is central as it makes the policy choices and takes responsibility for the initiation and maintenance of reforms. The country-level measures of good governance used here include political stability; government effectiveness; regulatory quality; the rule of law; control of corruption; and voice and accountability, as provided by Kaufmann, Kraay and Mastruzzi (2005). Kaufmann et al. (2005) used data on these variables for 204 countries to place Papua New Guinea relative to the positions of Botswana, Malaysia, and Nigeria.

Papua New Guinea ranks poorly relative to Botswana on all of the five measures of good governance and is the worst of the four on ‘government effectiveness’, but ranks better than Malaysia and Nigeria on ‘voice and accountability’. Nigeria ranks poorly vis-à-vis Papua New Guinea on all measures of good governance except government effectiveness—boding poorly for Papua New Guinea. In terms of progress made since 1996, Papua New Guinea has regressed on all measures of good governance except political stability. The largest slippages have been made in ‘control of corruption’, ‘rule of law’, and ‘government effectiveness’, in that order; thus, these are the areas with the greatest room for improvements. Kaufmann et al. (2005) show that the ‘development dividend’ from improved governance is large; they claim that a one-standard deviation improvement in governance raises incomes by a factor of 3.
Noting that ‘governance matters’ for growth of income and that Papua New Guinea has lost ground on good governance presents the opportunity to raise income by improving governance. In terms of the individual components, ‘control of corruption’, ‘rule of law’, and ‘government effectiveness’ offer the best prospects. I take up this challenge next, with the caveat that governance improvement requires both a systematic (methodical) as well as a systemic (holistic) treatment.

Combating corruption

A start in combating corruption could be made by establishing a high-powered and internationally affiliated anti-corruption commission. To gain credibility, the commission would need to initiate and achieve success in some high-profile corruption prosecutions. A start could be made on prosecutions from within government to send a clear signal to the rest of the community that no one is beyond the purview of the commission. The agency could put the Public Tenders Board under scrutiny and investigate allegations of malpractice within the public service, including hiring of cronies. The anti-corruption commission could work closely with the Public Service Commission to ensure that meritocracy prevails in all recruitment decisions. Successful exorcising of phantom projects such as bridges and buildings supposedly built in the districts and elimination of ghost workers from the public payroll have the potential to buy goodwill, save budgetary resources, and send a clear signal that the days of corruption have expired. The commission could draw lessons from a successful (and ongoing) campaign in Nigeria to combat corruption. The UK Department for International Development provides examples of how donors could assist (United Kingdom 2006).

Rule of law

The foundations for improvements to the rule of law are present and can be built upon. The judiciary remains independent and credible but private sector investments are held back due to insecurity of property rights, inability to enforce contracts, particularly to land, and fear of personal safety. Work has commenced on improving access to land for enterprise. This work has the potential to strengthen the individual’s right to land and the proceeds from it compared to what prevails under collective ownership. The recently launched Land Taskforce has been charged with the responsibility of providing policy advice on how the 97 per cent of the land that remains under customary title, and thus remains ‘dead capital’ (De Soto 2000), could be used more productively. This taskforce, while being cognisant of the indigenous institutions, has taken on the task of building on what is already working but could be improved. Clearer rights to land has the potential to reduce tribal conflicts and compensation claims to the extent that these are due to disputes over rights to a particular piece of land or the resources contained therein. Thus, the support to the Land Taskforce could be expanded with a clearer expectation of results in the short to medium term. The most important outcome from this work is not whether land is held under customary or private title, but that government can establish the processes which provide a high degree of certainty over ownership rights—and that this certainty is upheld over time.

The major urban areas of Papua New Guinea remain notorious for law and order problems, an issue that has attracted considerable debate but little progress. Unlike its Asian counterparts, Port Moresby grinds to a halt for a full night’s sleep at sunset, leaving scarce (physical and human) capital idle for more than 50 per cent of the day.
Improvements to law and order are likely to see income growth from increased utilisation of the scarce capital. A ‘Crime Taskforce’, similar in character to the Land Taskforce, could be set up to target interventions for crime reduction. Such interventions will require significant resources, an area where donors could be most helpful. The Enhanced Cooperation Program (ECP), for example, could be reassessed with a view to using a ‘payment for progress’ strategy to improve law and order (Barder and Birdsall 2006). Such a strategy would provide the flexibility and the autonomy to local institutions to use the resources provided for progress on agreed-to outcomes. AusAID, for example, could disburse the ECP funds to the local police for progress made on quantifiable outcomes relating to controlling crime. To be effective, such incentives would need to be transparent, have clear benchmarks, and be independently monitored (Collier 2002). Quick runs, in terms of reducing burglary in Port Moresby, could be used to signal change and thus draw community support for the initiative.

**Government effectiveness**

Poor government effectiveness could be the third area of focus. Once again, a ‘payment-for-progress’ strategy could be employed to provide the incentives for improved delivery of public services. Road construction, for example, could be paid for on the basis of the number of kilometres of road of a given quality built. Cleaning and maintenance of the infrastructure and other services that could be easily measured could be provided through a similar scheme. Data on the six measures of governance from the World Bank, as well as indicators provided by independent contracted experts, could be used to track progress.

Government effectiveness could be increased through greater outsourcing of the supply of public services. The Independent Consumer and Competition Commission Act of 2002 provides the legislative basis for private enterprise to provide goods and services on a competitive basis. The Independent Public Business Corporation of Papua New Guinea Act 2002 allows for the divestment of state-owned enterprises that operate in competition with the private sector. Privatisation of state-owned enterprises, started by the previous government, could be accelerated under an improved regulatory environment to enable the state to focus its efforts on improving the delivery of public services. Air Niugini, for example, could be privatised, possibly along similar lines to that undertaken by Samoa, to lower the cost of international aviation.

**Donor support**

Donors can make a substantial contribution towards providing additional resources for improvements in the delivery of primary education and basic healthcare. Commitment by the government to investments in infrastructure, education, and health of the population is likely to draw donor support. It is also likely to provide dividends in terms of increased productivity of the employed resources and an avenue to address the HIV/AIDS epidemic. ‘Payment for progress’ could once again be used where resources are allocated on the basis of measurable outputs such as the number of primary school teachers trained and employed annually, the number of children immunised, and the proportion of births attended by trained medical personnel.

**Performance-based aid**

HIV incidence is reported to be rising at an alarming rate and thus deserves an early, concerted, and direct attack to contain its spread. Botswana provides a number of lessons on what may be done to avert a crisis.
This is an issue that will remain centre stage in any long-term vision for Papua New Guinea. While working out the details of a strategy to combat the spread of the HIV virus is beyond my expertise, ‘payment for progress’ with arms-length reporting could again be employed to create the right incentives.

Conclusions

This paper provides a realisable vision for Papua New Guinea by 2020 should appropriate policies be put in place now. A growth path for Papua New Guinea from 2006 to 2020 has been created by juxtaposing the growth experience of Botswana from 1981 to 1995, the time period chosen given the many parallels between Botswana of 1981 and contemporary Papua New Guinea. Moreover, Papua New Guinea has many similarities including being rich in natural resources with Botswana.

Botswana’s successful growth has been attributed to the choice of appropriate policies. These choices were in turn due to a combination of the endowments (colonial history) and conscious choice of the political leadership. Papua New Guinea has similar natural advantages but has been deficient in terms of the latter. The elections of 2007 thus provide the opportunity to create the incentives for improved governance. Ensuring that the forthcoming election is fought on a vision for the nation as a whole rather than on local issues could provide such incentives. Those winning office could then be judged and rewarded for progress made on their espoused vision. It could be hoped that this would reinforce improved governance with political stability. The preconditions for political and macroeconomic stability are present but need consolidation to avoid slippage by future governments. The hope is that a system that merges the interests of the leaders with those of private investors will lead to increased investments, employment, and growth of income.

Secure rights to property were central to the success of Botswana. Rodrik (2002) argues that markets cannot exist except in the most rudimentary fashion without property rights and contract enforcement. Growth requires markets, which in turn need secure property rights (Bardhan 1999; Dixit 2005). Most of the contracts in Papua New Guinea’s large subsistence sector are relational rather than rules-based, and thus transactions are limited both by space and time. These contracts have low fixed costs but the costs rise quickly as trade expands in terms of space and time.

Furthermore, contemporary Papua New Guinea is not only deficient in terms of secure property rights but also with respect to governance as a whole. Since ‘governance matters’, the priority for the incoming reform-minded administration determined to raise the rate of growth of income has to be improvements in governance. The cross-country evidence suggests that Papua New Guinea lags most in terms of control of corruption, law and order, and government effectiveness. Moreover, the nation has lost ground in each of these areas since 1996 when this data was first collected. Therefore, improved governance is essential for market-based growth. But such governance can only arise with the support of well-functioning formal (rule-based) institutions. Botswana managed to make the transition from informal to formal institutions; there is thus hope for Papua New Guinea.
Notes

1 Botswana has one of the highest HIV infection rates, an issue that has not been factored into the PNG scenario.
2 The legislation as of 2006 stipulated that 90 per cent of windfall revenues must be used to repay debt—this is how the large debt levels have been brought down in the current election cycle. At the time of writing, moves were under way to reduce the 90 per cent figure, however.
4 The limited preferential voting system was introduced to address the last-mentioned concern. The effectiveness of this system will be tested in the 2007 elections.
5 Total debt as at the end of 2005 stood at 48 per cent of GDP; data on public debt is from the 2007 Budget, Volume 1.
6 This methodology is motivated by Collier (2006).
7 Prior to independence, New Guinea was a Trust Territory while Papua was an Australian territory.
8 Botswana probably had poorer initial conditions, having just 12 kilometres of sealed roads, 22 university graduates, and 100 graduates from secondary schools at independence. Papua New Guinea had its own university and a lot more graduates, both from university and secondary schools and is better located, being next door to Australia and Asia.

References


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