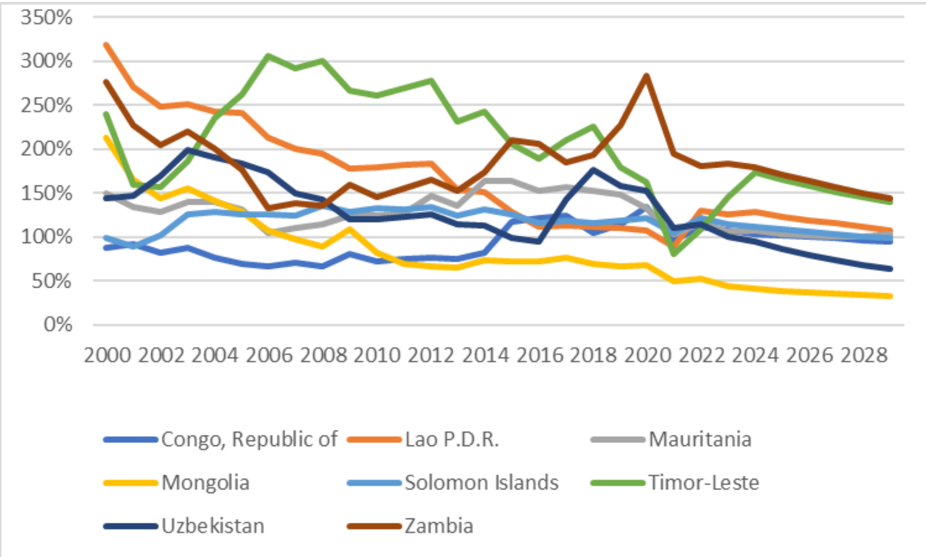
Setting the foundations for effective change in Papua New Guinea

Blessed with abundant natural resources and a young and growing population, Papua New Guinea (PNG) has a unique position within the Coral Sea region to develop a robust economy and a vibrant business environment. The opportunities are well-recognized in the resource sector, but should be leveraged across the entire PNG economy.

Unfortunately, the PNG economy has consistently underperformed. Although in the early 2000s, PNG's gross domestic product (GDP) per capita was well above other countries with similar characteristics, in recent years it has fallen dramatically, and this trend is expected to continue, as depicted in the figure below. In other words, relative to peer countries, PNG's economic performance and living standards have progressively worsened.

Real GDP Per Capital (US$ PPP Current prices) – PNG as a Percentage of Comparable Countries



Addressing this systemic underperformance is essential for improving the well-being of the PNG community and ensuring long-term economic stability.

Certain challenging characteristics of the business environment hamper improved performance. Businesses operating in PNG report that these difficulties include inadequate infrastructure, foreign exchange shortages, crime and lawlessness, a challenging regulatory environment, and a range of other barriers to invest and grow. These challenges must be addressed to realize PNG's potential. They are complex and addressing them is no small task; solutions are long-term and will require the combined efforts of and close collaboration between PNG's public and private sectors. .

Compounding these challenges is the inherent instability in the PNG economy – characterized by the cyclical 'boom and bust' nature of the resources sector, a tendency to focus on immediate, high-profile projects while fundamental investments and reforms remain insufficiently addressed, and the instability stemming from inadequate law and order. In this context, reforms should aim to establish a stable environment conducive to business growth and community development. Nonetheless, stability should be sought alongside necessary fundamental reforms; while reform can be challenging, change remains imperative.

The complexity of PNG's challenges underscores the need for consistent action and the application of proven reform principles. Several themes should be kept in mind as the public and private sectors of PNG work together toward reform and stability:

1. Setting the environment for improved community outcomes must come from within. International support for PNG's development is essential, but its effectiveness depends on more efficient planning and execution of reforms. Strengthened accountability for performance among all stakeholders involved, including state-owned enterprises (SOEs), is essential to ensure that aid on other forms of support achieve their intended impact.

2. Enhancing the ease of doing business in PNG is essential for fostering economic growth. Addressing factors that create unnecessary barriers, such as inadequate law and order, disruptions in transport and energy, limited access to foreign currency, and bureaucratic inefficiencies is crucial. By mitigating these obstacles, businesses can operate more smoothly, leading to reduced costs, job creation, and improved living standards.

3. To ensure that reforms align with the principles of simplicity, transparency, and certainty, it is important for businesses and other stakeholders to be actively involved in both the planning and execution phases. While involving a broader range of stakeholders in the reform process may present political challenges, it significantly reduces the risk of unexpected issues and enhances the effectiveness of the reforms. Engaging stakeholders early helps to address concerns, build consensus, and improve overall implementation.

4. Decisions regarding major investments or expenditures should adopt a whole-of-life perspective. Upfront capital or spending has been often undertaken without fully considering or committing to the long-term costs associated with maintenance, staffing, and other ongoing needs. This can lead to suboptimal service levels and inefficient use of funds. Spending should be done judiciously with forethought, and through consultations with a range of stakeholders.

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Introduce feedback loops into decision-making and spending processes to provide adequate support to successful initiatives and address or reform those that are ineffective. Effective and impartial evaluation of government spending is essential for this process. For successful evaluations of spending, early-stage planning to collect all the required information is vital Additionally, new initiatives should incorporate mechanisms from the beginning to capture timely data on spending, outputs, and impacts. This approach will enable more effective assessments and adjustments, enhancing overall efficacy and accountability.

PNG needs meaningful change for the benefit of all, but this change should be carefully developed, communicated, and implemented. The goal should be to minimize the boom-bust cycle in PNG's political landscape and economy, replacing it with more stable and sustained progress. By fostering a more consistent approach and working together with all stakeholders, the country can enhance long-term stability and create a more favourable environment for growth and development.

The American Chamber of Commerce (AmCham) Coral Sea represents Pacific and American businesses and seeks to support the development of shared prosperity by creating an environment that fosters economic growth and potential throughout the Coral Sea countries. AmCham Coral Sea and its members look forward to engaging with the Government to progress the necessary reforms for the benefit of all.