

# Papua New Guinea Country Diagnostic Study

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# **I. Background**

# Background

- Paris Declaration calls for aligning development assistance with partner country priorities, and for supporting the development of their capacity for development planning and implementation.
- ADB has undertaken several initiatives to implement the commitments made under Paris Declaration. One initiative is to better align CPS with DMC's own planning processes and make greater use of their diagnostic and analytical work.
- ADB also recognizes the value of assistance to DMCs in strengthening their capabilities for undertaking diagnostic and analytical assessments.

# Country Diagnostic Studies

- RETA 6397 was approved in 2007, aiming to strengthen diagnosis and analysis of binding development constraints in selected DMCs:
  - **Impact** - Enhanced development impacts of the DMCs' own interventions and ADB's operations.
  - **Outcome** - Enhanced capacities of DMCs to undertake development diagnostics and formulate development plans/strategies.
  - **Outputs** – Improved understanding of the selected DMC economies and their binding constraints to development.

# Country Diagnostic Studies

- The RETA Includes 4 country studies: Philippine and Nepal Country Diagnostic Studies have been completed; Indonesia Study is being undertaken; and PNG Study is planned for 2010.
- The PNG study will involve:
  - Reviewing development performance and patterns.
  - Formulating a set of hypotheses and testing of binding constraints.
  - Formulating policies to address the binding constraints

## **II. Objectives of the Study**

“We will be ranked in the top 50 in the United Nations Human Development Index by 2050, creating opportunities for personal and national advancement through economic growth, smart innovative ideas, quality service and ensuring fair and equitable distribution of benefits in a safe and secure environment for all citizens.”

**Government of Papua New Guinea. 2009.**

Study will identify medium to long term constraints to inclusive growth and propose policy options to overcome these



Study will impart capacity building on diagnostic approaches to development

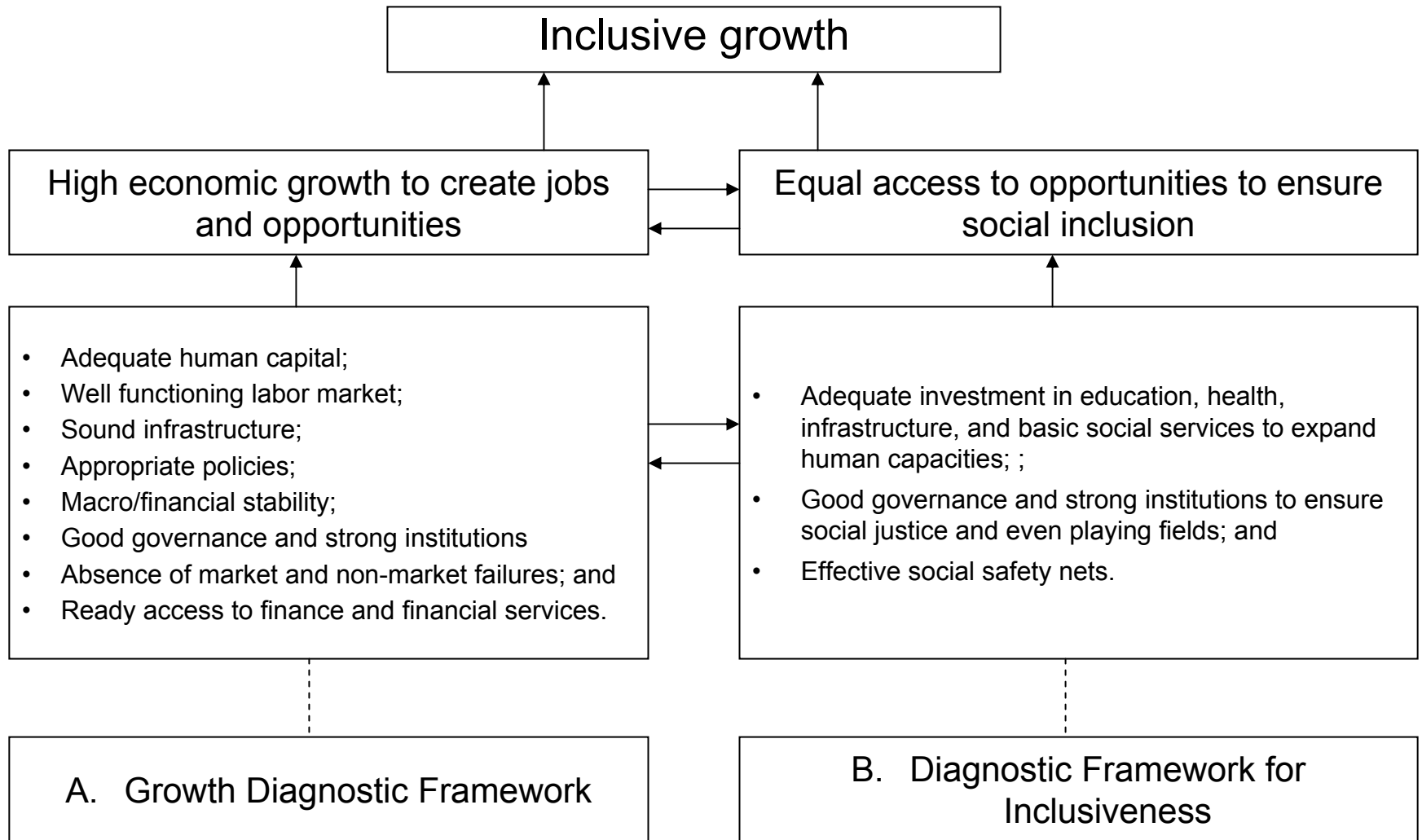
High and sustained economic growth that is inclusive.

## **III. Methodology**

# Concept of Inclusive Growth

- Inclusive growth:
  - Growth that not only generates economic opportunities, but also ensures equal access to the opportunities by all members of a society.
- Development strategy based on the inclusive growth concept is anchored on two policy pillars:
  - High and sustainable growth to create economic opportunities.
  - Social inclusion to ensure equal access to the opportunities by all.

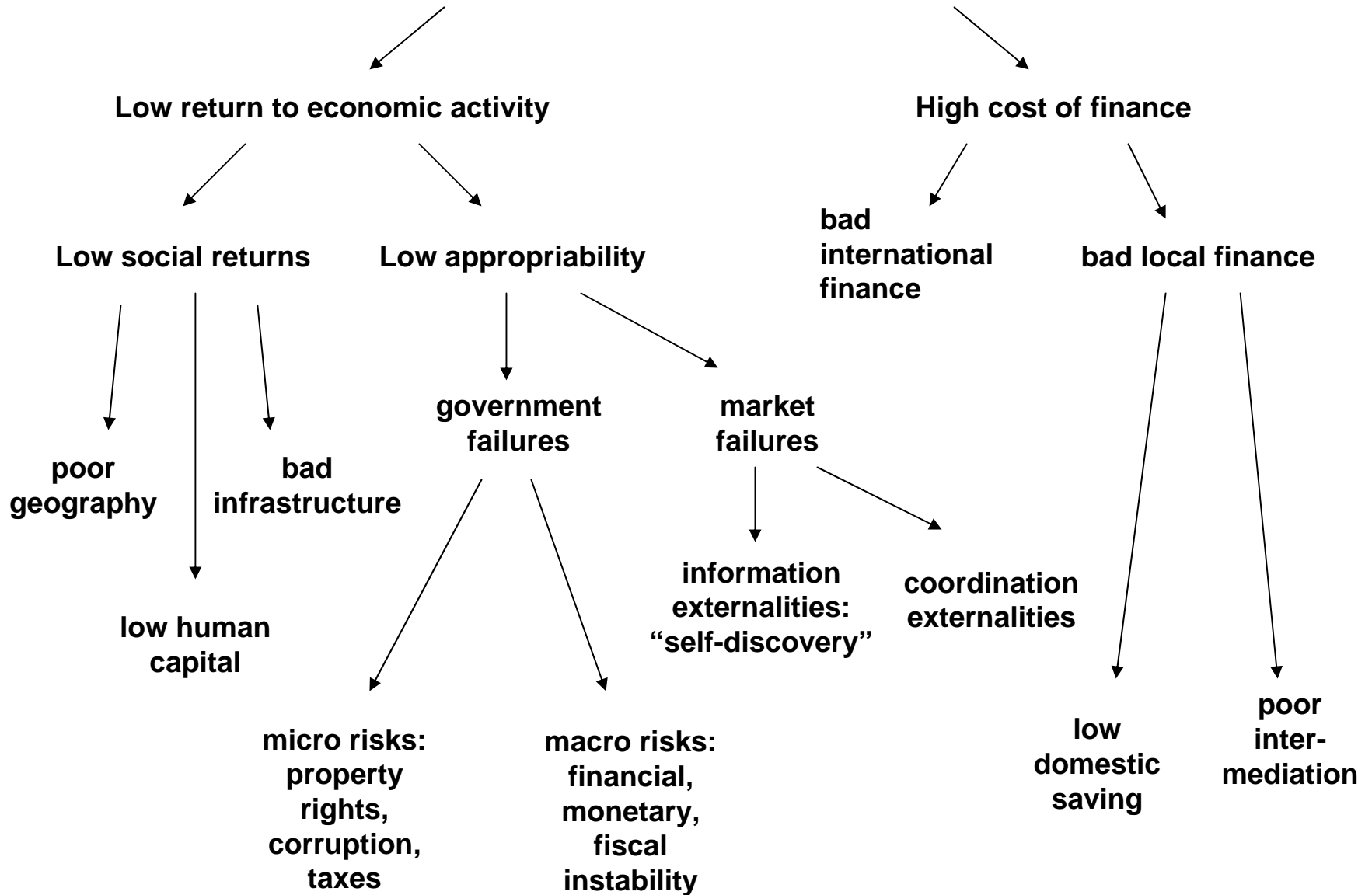
# Concept of Inclusive Growth



# A. Growth Diagnostics

- Why need a new approach to growth strategy?
  - Disappointments with [Washington Consensus](#)
- What does growth diagnostics do?
  - Identify the most binding constraints and figure out policy priorities.
- How to identify the most binding constraints?
  - Identify proximate determinants of growth.
  - Figure out which of those pose the greatest impediments to higher growth.
  - Identify the specific distortions behind the impediments.
- Using the following problem tree as a roadmap.

# Low levels of private investment and entrepreneurship



# From Theory to Practice - Indicators

- Explicit search for “diagnostic signals” – price and non-price signals.
- Searching for price signals: e.g., return to education, interest rates, cost of transport:
  - If low education is a serious problem, returns to skill/education should be high and unemployed skilled people should be low.
  - If investment is constrained by savings, interest rates should be high and growth respond to changes in available savings (e.g., inflow of foreign capital).
  - If poor transport links are a constraint, there should be bottlenecks and high private cost of transport.


# From Theory to Practice - Indicators

- Searching for non-price signals:
  - When a constraint binds, it results in activities designed to get around it:
    - High tax → high informality.
    - Poor legal institutions → high demand for informal mechanisms of conflict resolution and contract enforcement.
    - Poor financial intermediation → internalization of finance through business groups, etc.

# From Theory to Practice

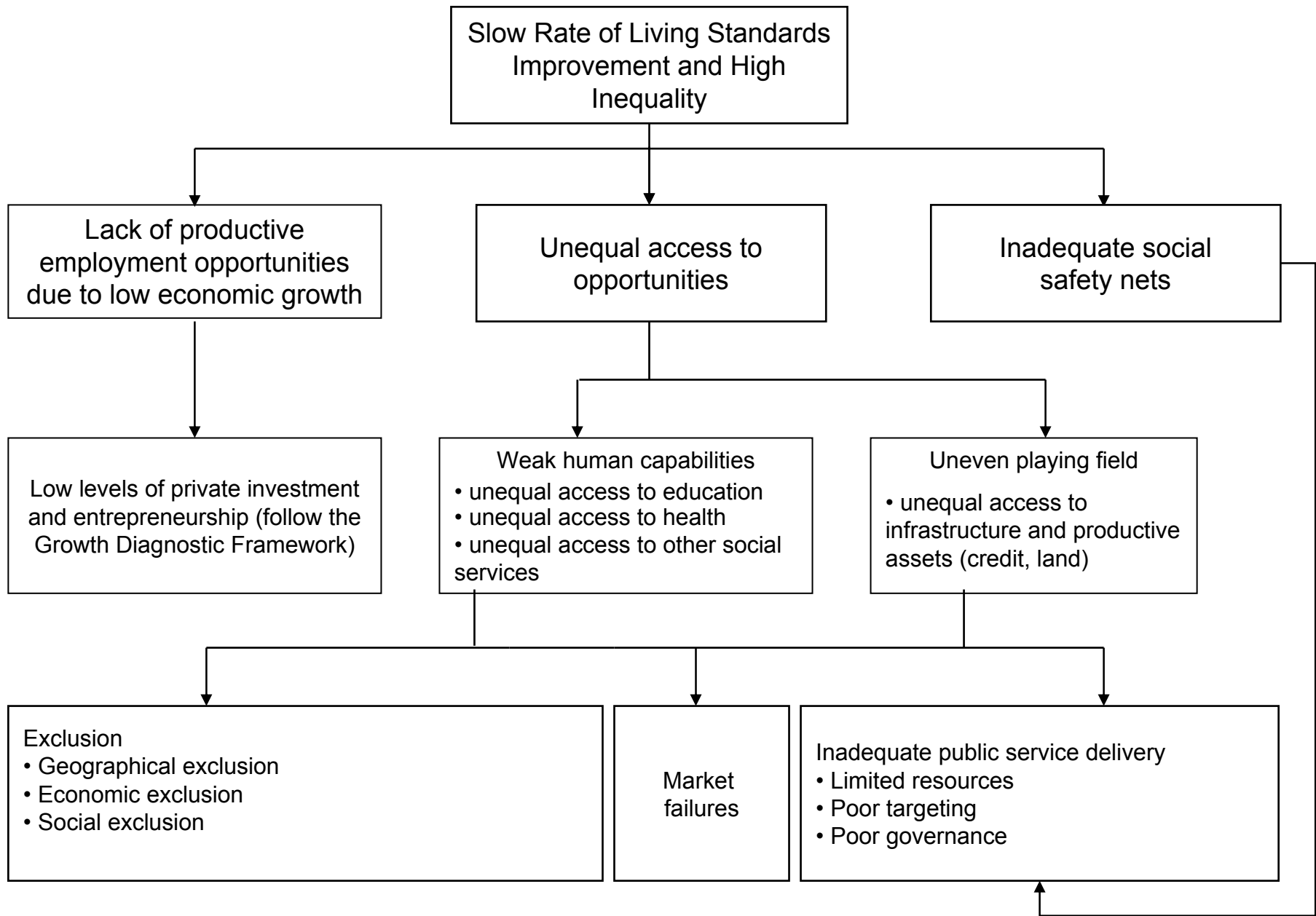
- Bench-marking
  - With time periods
  - With other countries
  - Within country (regional, sectors/industries, etc.)
- Types of evidence
  - Direct evidence
  - Indirect evidence
  - Business Community/Investor feedbackunity says
- For fast-growing economies, focusing on constraints to sustaining growth and lagging regions.

# Growth Diagnostics: Key Questions for the PNG Study


- Is the level/quality of [economic growth](#) sufficient/adequate?
  - If not, is it due to the [insufficient level of investment](#) in the economy and/or the [concentration of investment](#) in certain sectors?
- Is investment low, especially in the non-mining sector?
  - If not,
    - Is it due to [high cost of finance](#)? If so, why?
    - Is it due to low returns to economic activity? If so, are social returns to investment low? 
      - Is [infrastructure poor](#) and [human capital scarce](#)?
    - Is it due to low appropriability of returns (private returns)?
      - Is it because of [macro risks](#)?
      - Is it due to [micro risks](#) (poor governance, high taxes and rigid labor markets)
      - Is it due to market failures?
- Are regional disparities in growth high?
  - If yes, are the returns to investment lower in some regions than other regions? If so, why?

## B. Diagnostic Framework for Inclusiveness

- A diagnostic framework can also be applied to identify constraints to improving people's living standards and reducing inequality.
- How to identify the most binding constraints?
  - Identify proximate determinants of people's welfare.
  - Figure out which of those pose the greatest impediments to improving living standards.
  - Identify the root causes for the impediments.
- Using the following conceptual framework as a roadmap.



# Diagnosics for Inclusiveness: Key Questions for the PNG Study

- Has the recent growth been inclusive?
- Has the recent economic growth been generating sufficient employment opportunities?
  - If not, is it due to the slow  rate of economic growth, or due to the quality/type of economic growth?
- Has the access to opportunities been equal across the country, and among different social groups?
  - If not, is it due to weak human capabilities, and/or uneven playing fields? If so, has the access to education, health, other social services, infrastructure, and productive assets been equal? If not, why?
- Has the provision of formal social safety nets been adequate and effective?
  - If not, why?

# Study Timeline

- Initial dialogue – November 2009
- Inception Workshop – March 2010
- Analysis and Consultations – March to June 2010
- Presentation of Findings and Recommendations – July 2010
- Report Launch – September 2010

Thank you

# Washington Consensus

## Original Washington Consensus:

1. Fiscal discipline.
2. Reorientation of public expenditures.
3. Tax reform.
4. Financial liberalization.
5. Unified and competitive exchange rates.
6. Trade liberalization.
7. Openness to FDI.
8. Privatization.
9. Deregulation.
10. Secure property rights.

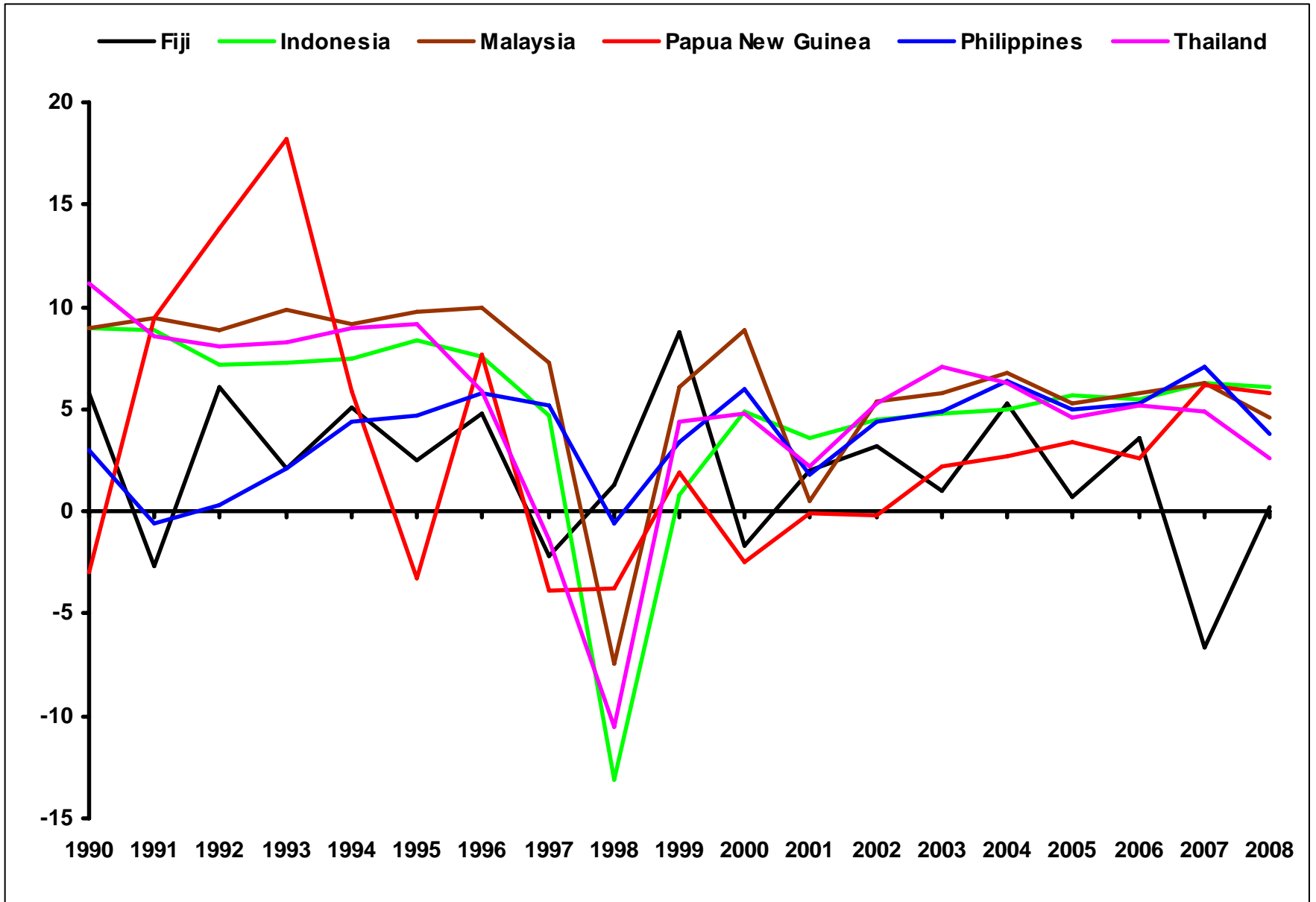
## “Augmented” Washington Consensus, 1-10 plus:

11. Corporate governance.
12. Anti-corruption.
13. Flexible labor markets.
14. WTO agreements.
15. Financial codes and standards.
16. “Prudent” capital-account opening.
17. Corner exchange rate regimes.
18. Independent central banks.
19. Social safety nets.
20. Targeted poverty reduction.



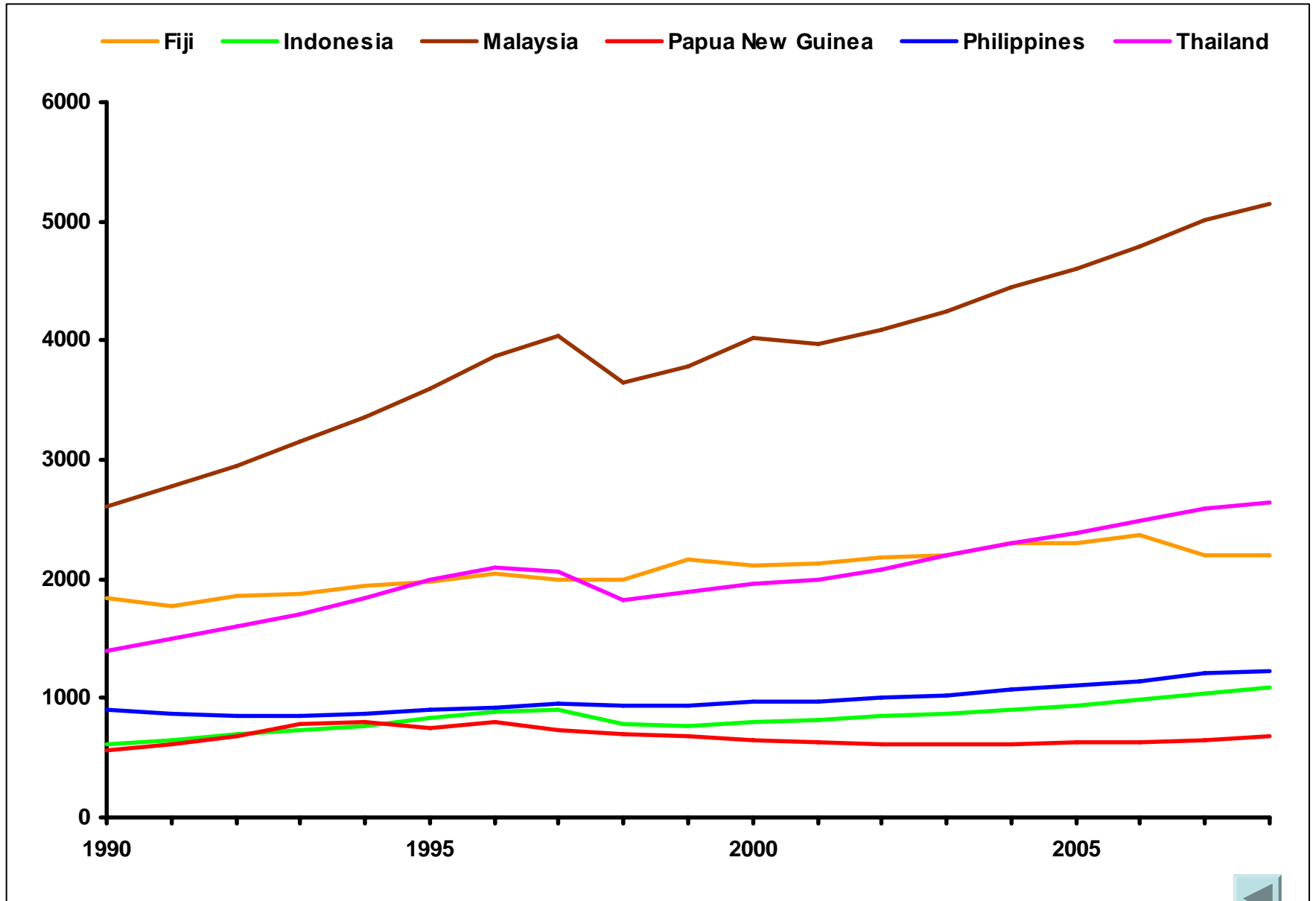
# GDP Growth Rates, 1990-2008

Source: WDI



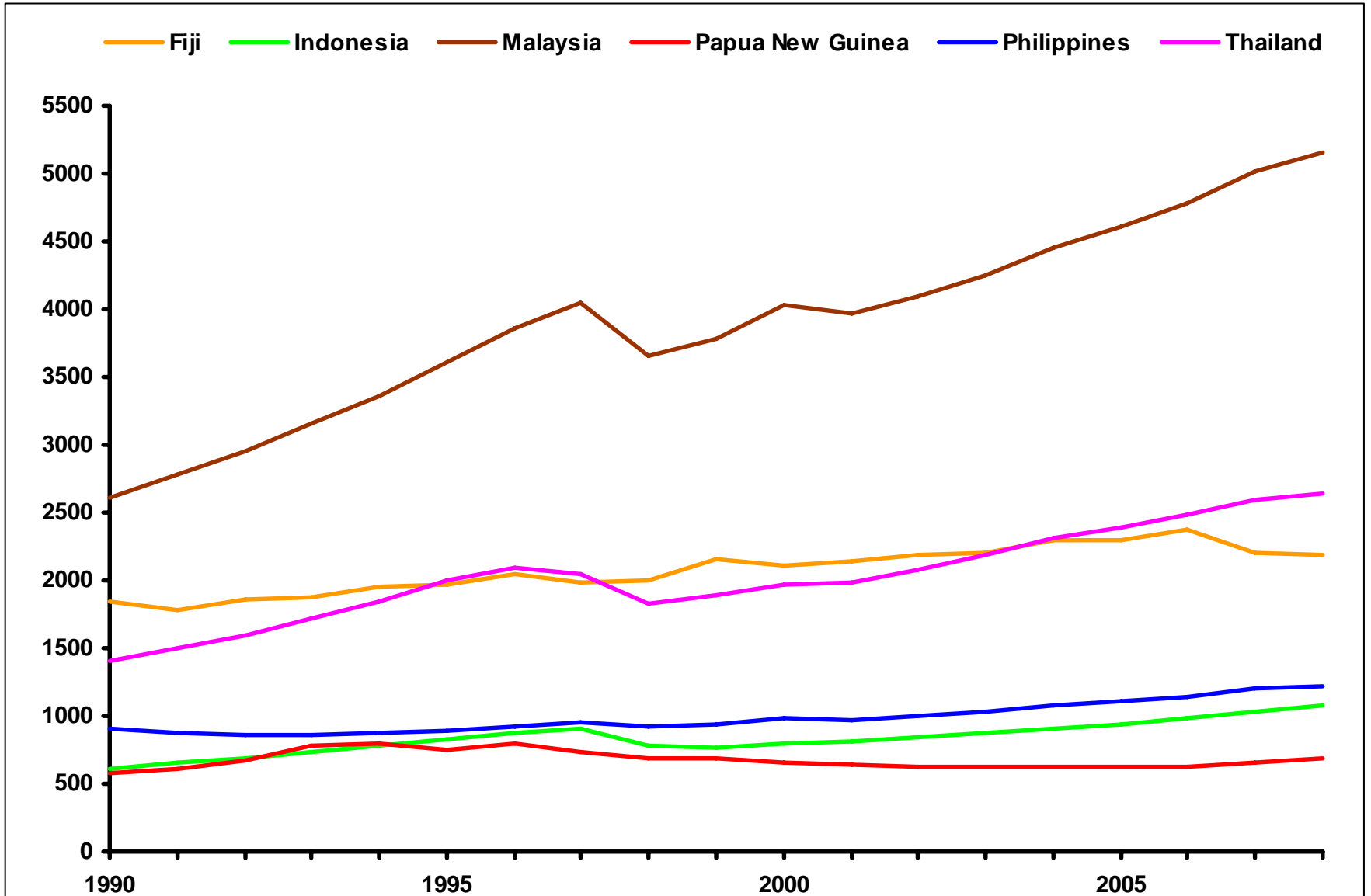
# Per Capita GDP in 2000 US\$, 1990-2008

Source: WDI

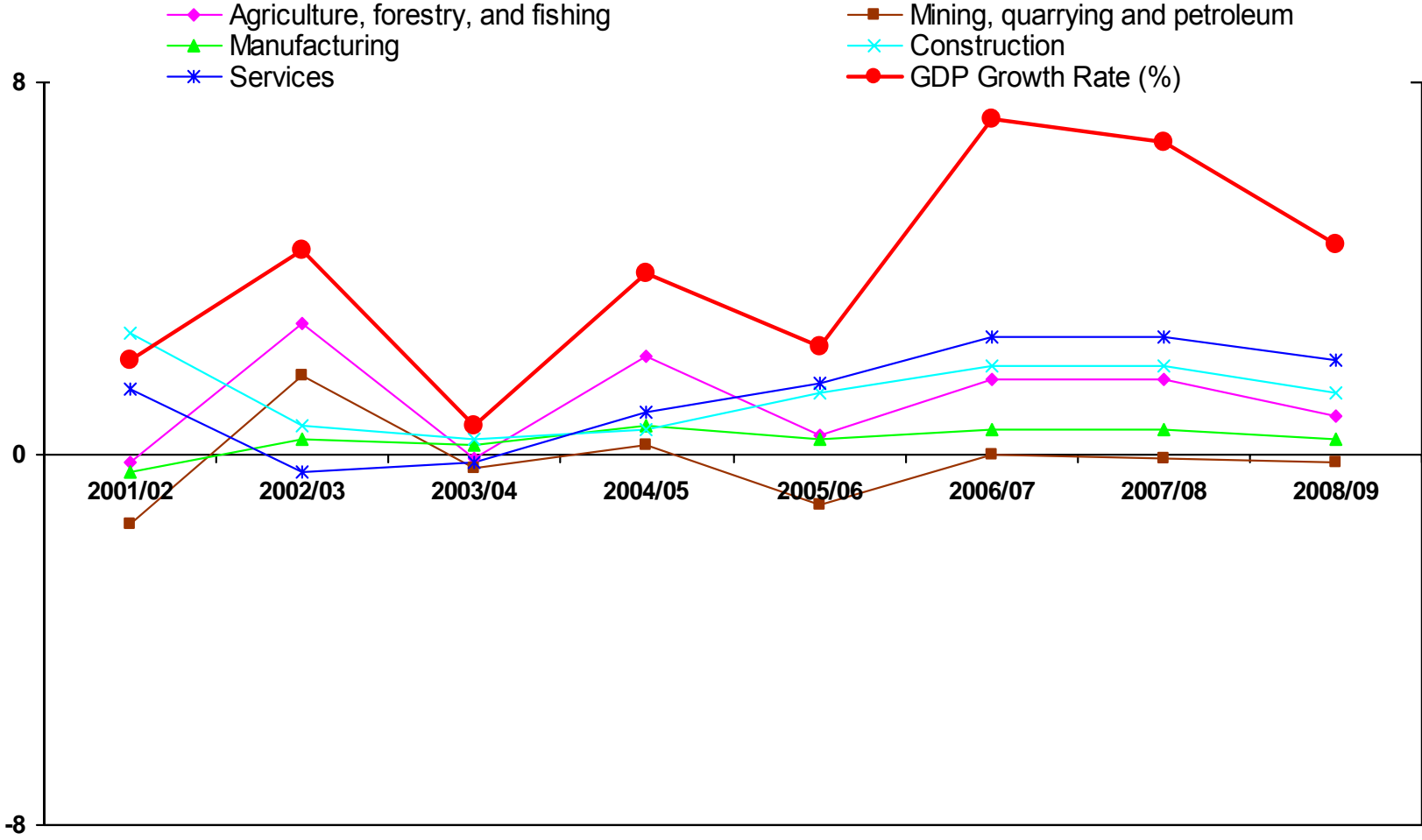


# Per Capita GDP (PPP) in 2005 International \$, 1990-2008

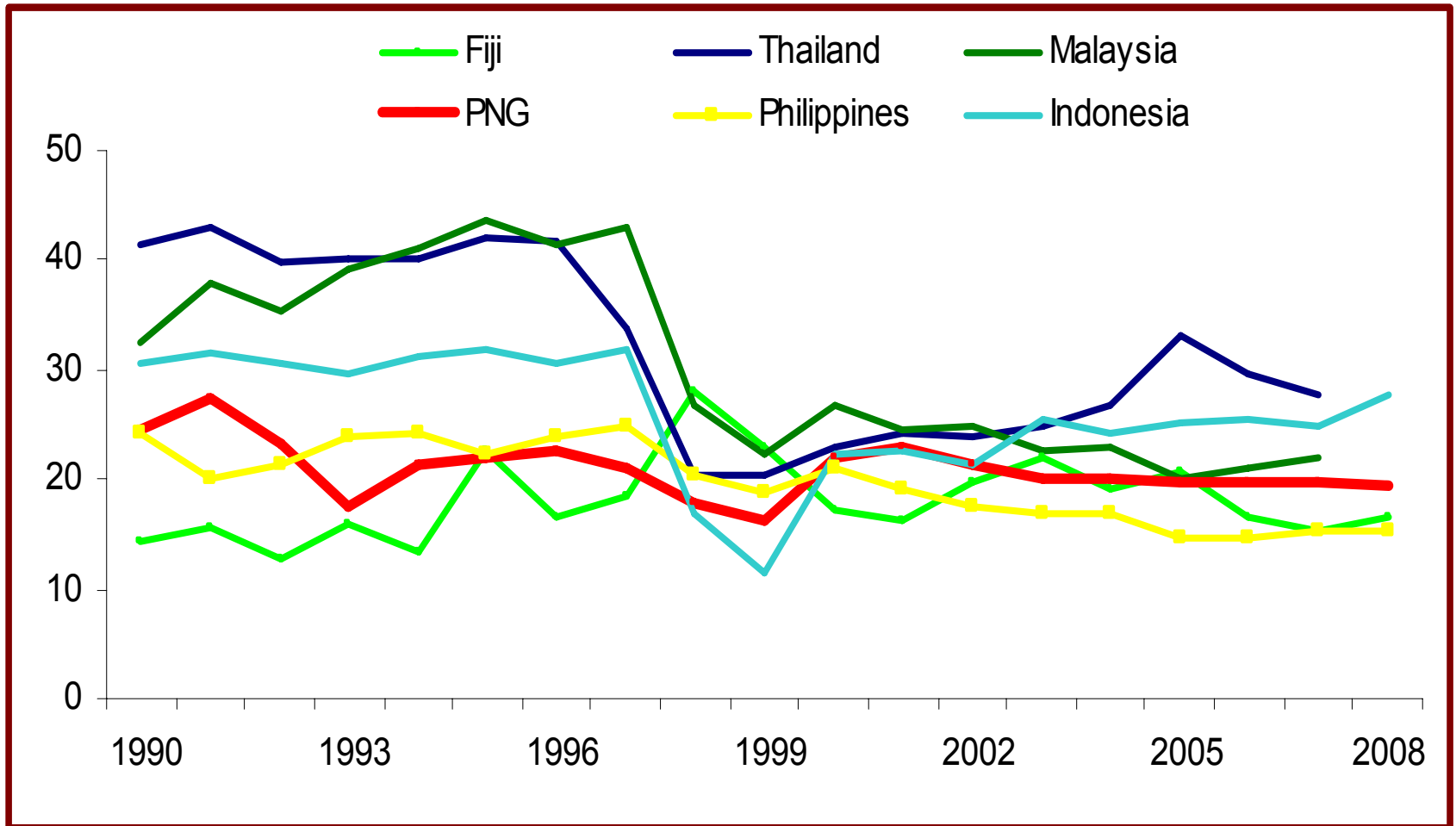
Source: WDI



# Sectoral Contribution to GDP Growth (in percentage points)



## Comparison of Investment Rates (% GDP) (1990-2008)

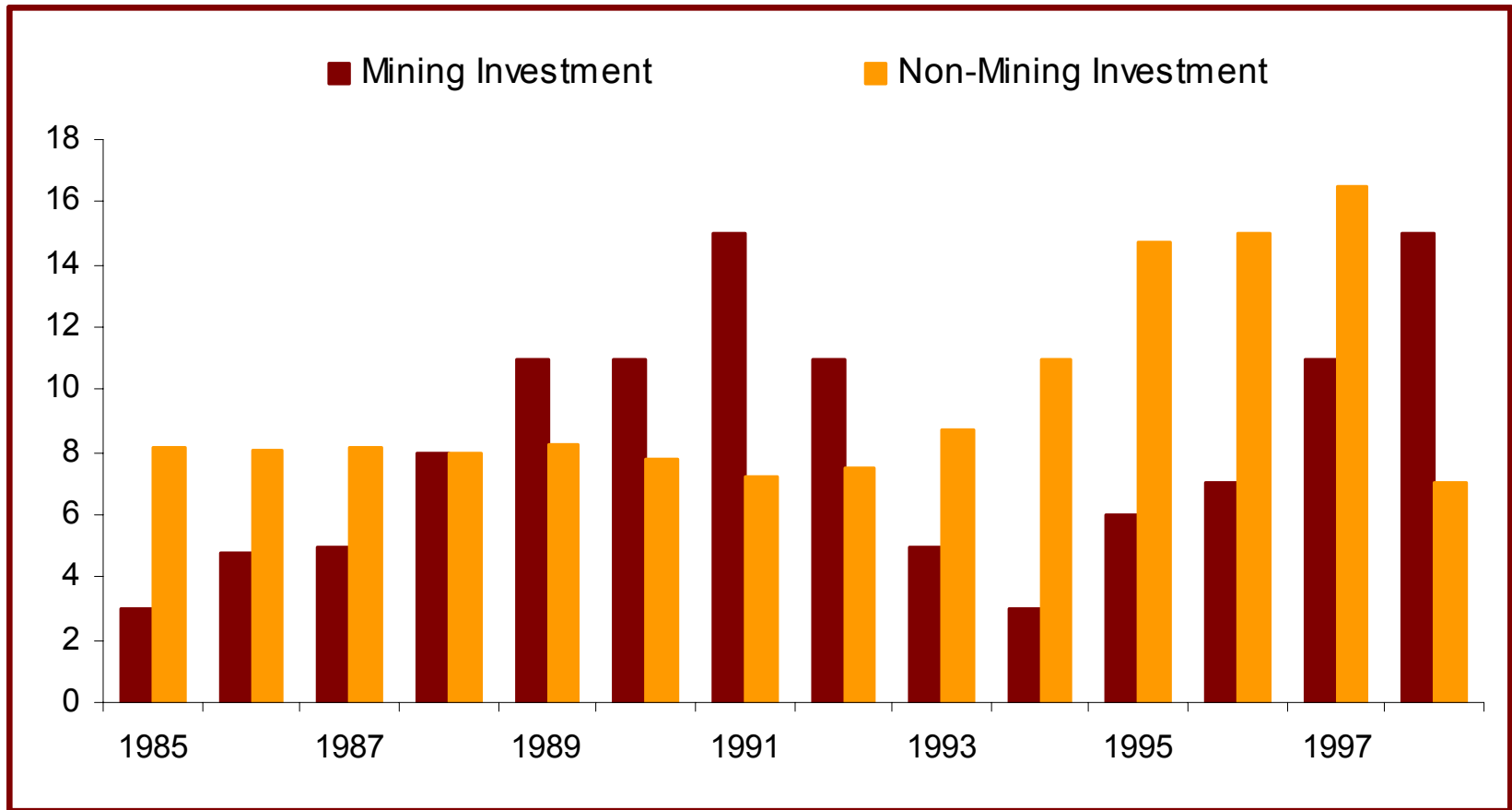


Sources: WDI

Investment = Gross Domestic Capital Formation



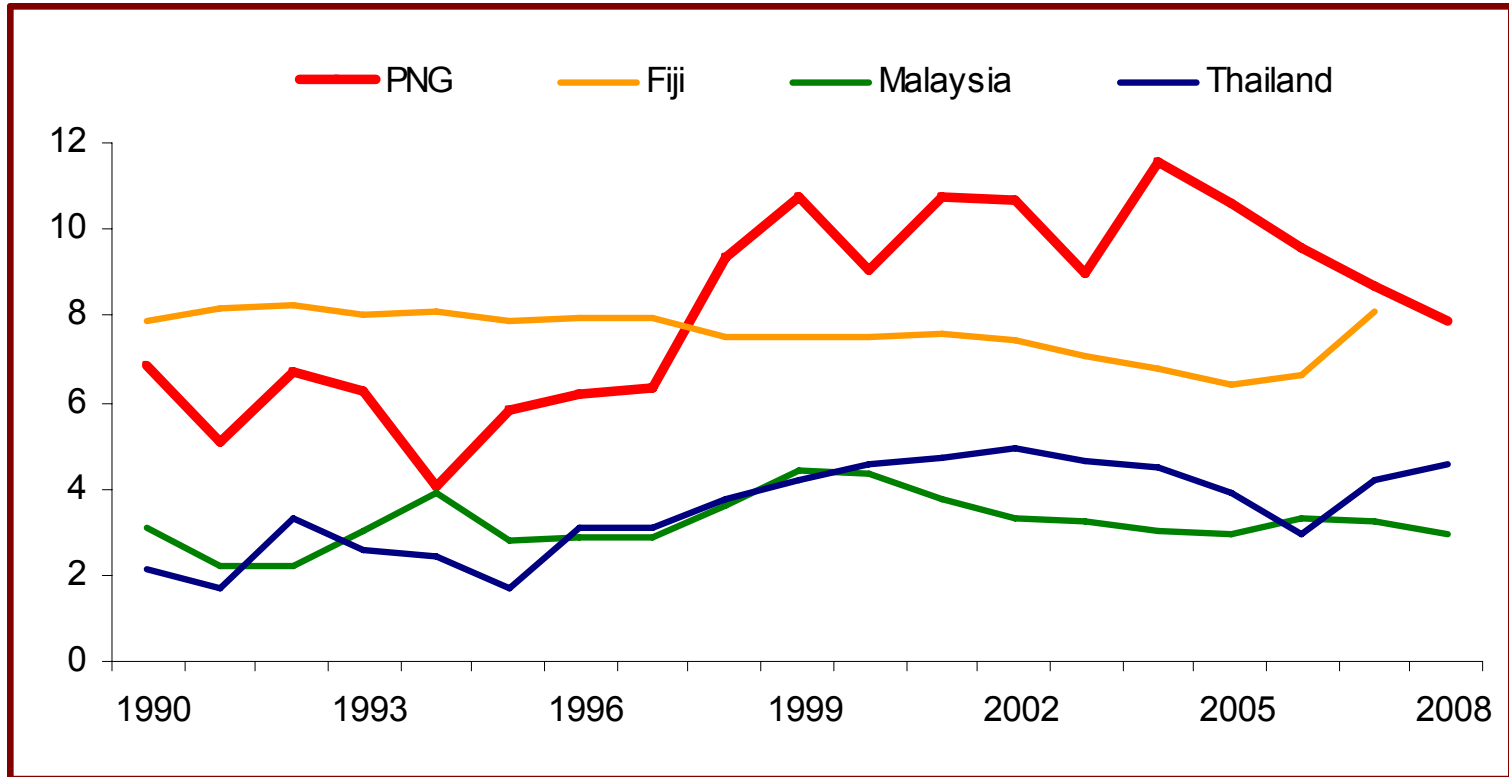
## Private Mining and Non-Mining Investment (% of GDP)



Sources: IMF



## Comparison of Spreads Between Lending and Deposit Rates



Sources: World Bank (various years); IMF (various years)

Note: on annual basis

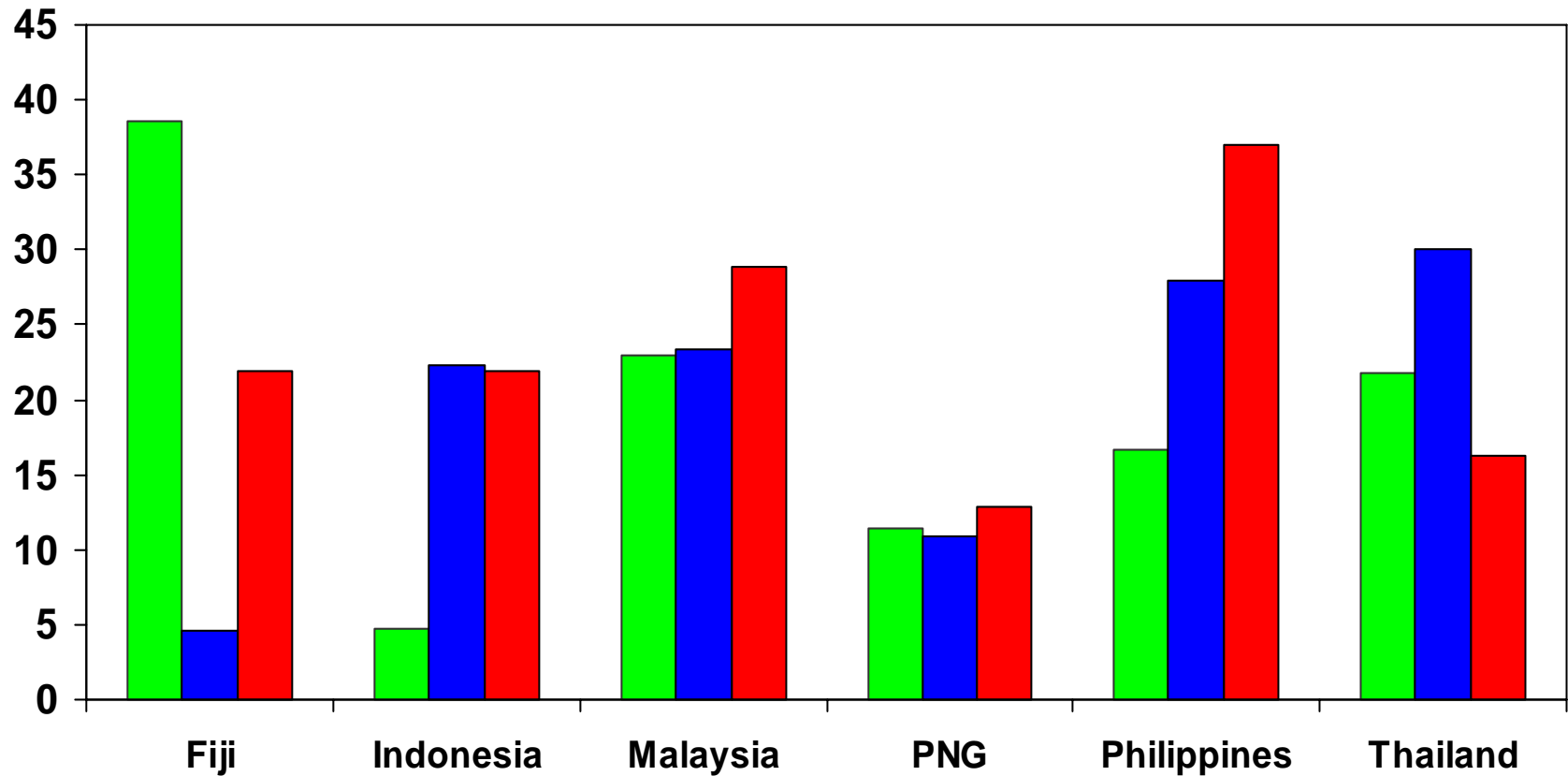


# Social Returns to Investment, %

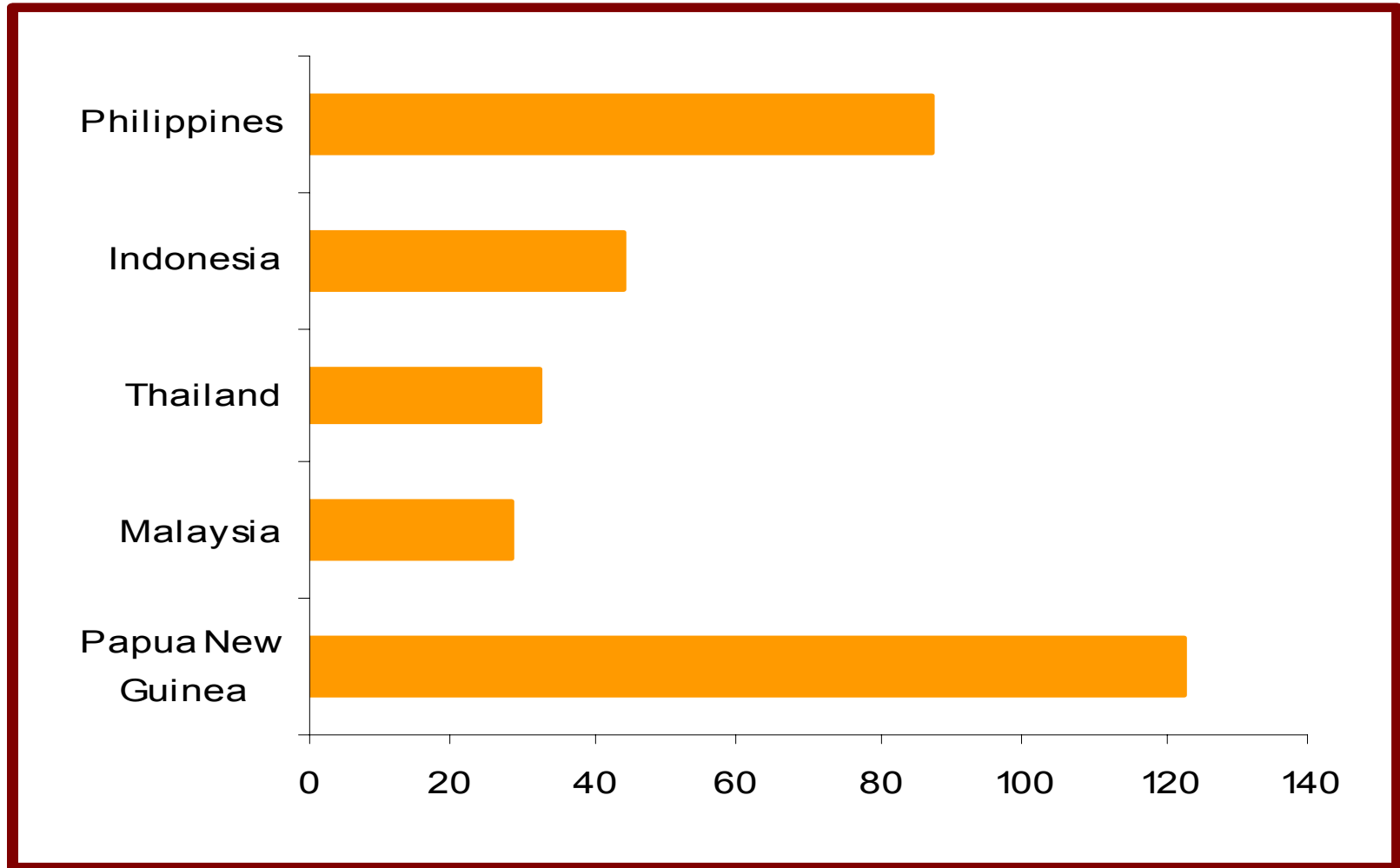
■ 1999

■ 2003

■ 2006



# Infrastructure Quality Ranking, 2006-2007



Source: WB TSE 2007



# Scarcity of Human Capital

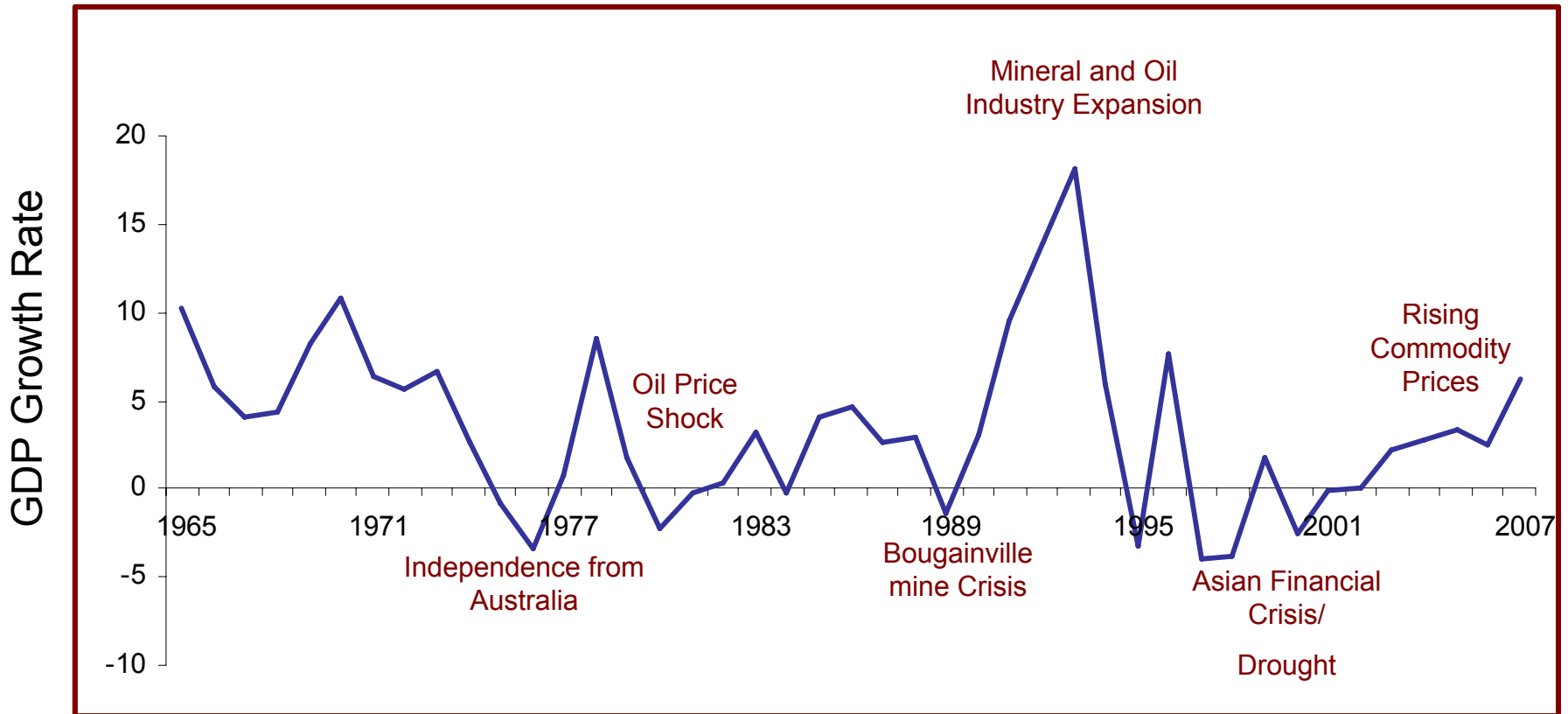
- Businesses consider availability of skilled labor as a major constraint – 6<sup>th</sup> of 16 constraints in 2007
- Availability of skilled labor may have somewhat improved – score of 4.1 in 2007 compared with 4.5 in 2002

Source: ADB, Institute of National Affairs (2008)

Note: 0= lowest rank, 6= highest rank (higher values correspond to higher constraints)



# Risks to Appropriability of Returns (Private Returns)- Macro Risks?



Sources: World Bank (various years); Quarterly Economic Bulletin (various years)



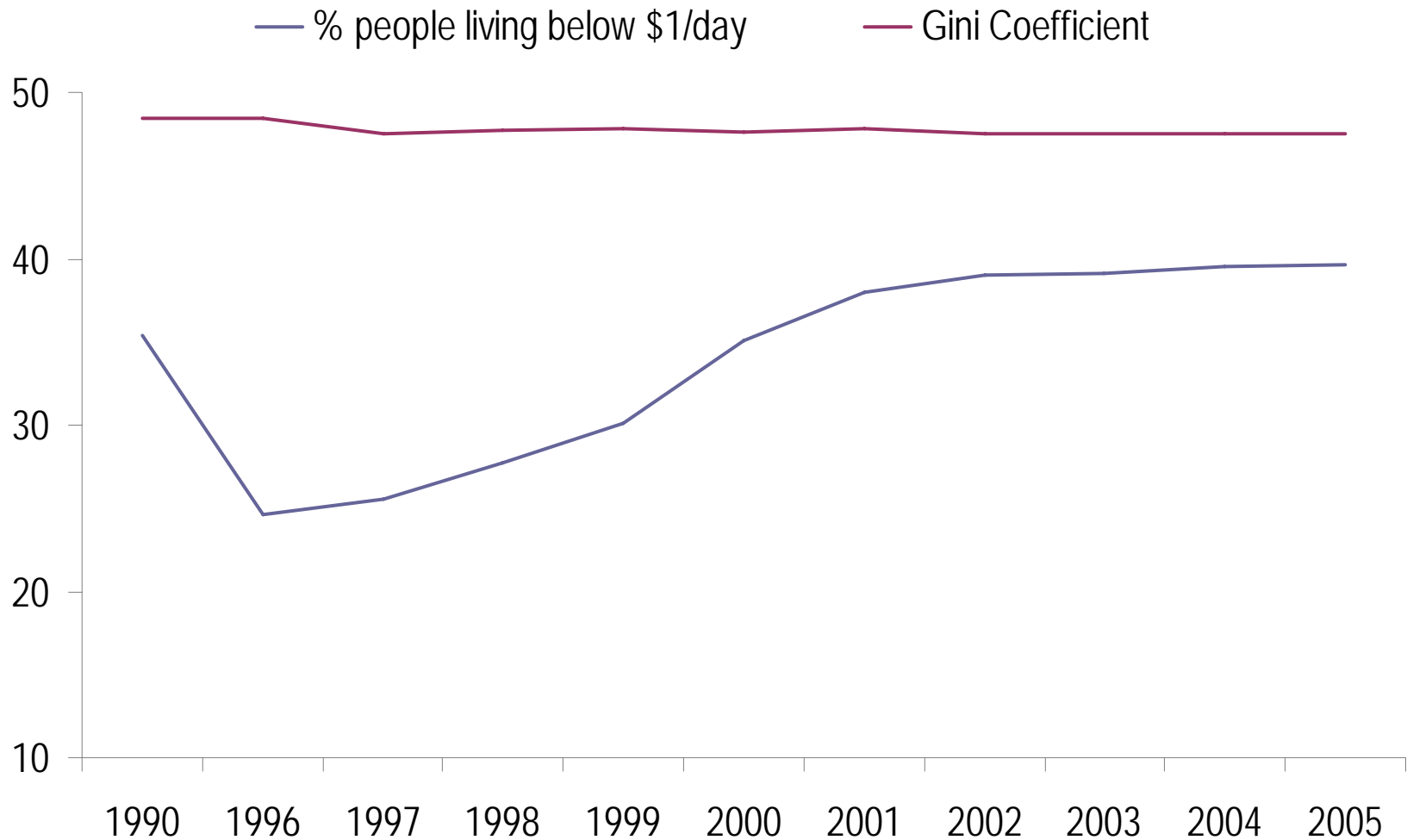
# Risks to Appropriability of Returns (Private Returns) – Micro Risks

- Law and order, corruption and political uncertainty ranked as the top three constraints by businesses
- Taxes and taxation were not ranked in the top constraints

Source: ADB, Institute of National Affairs (2008)

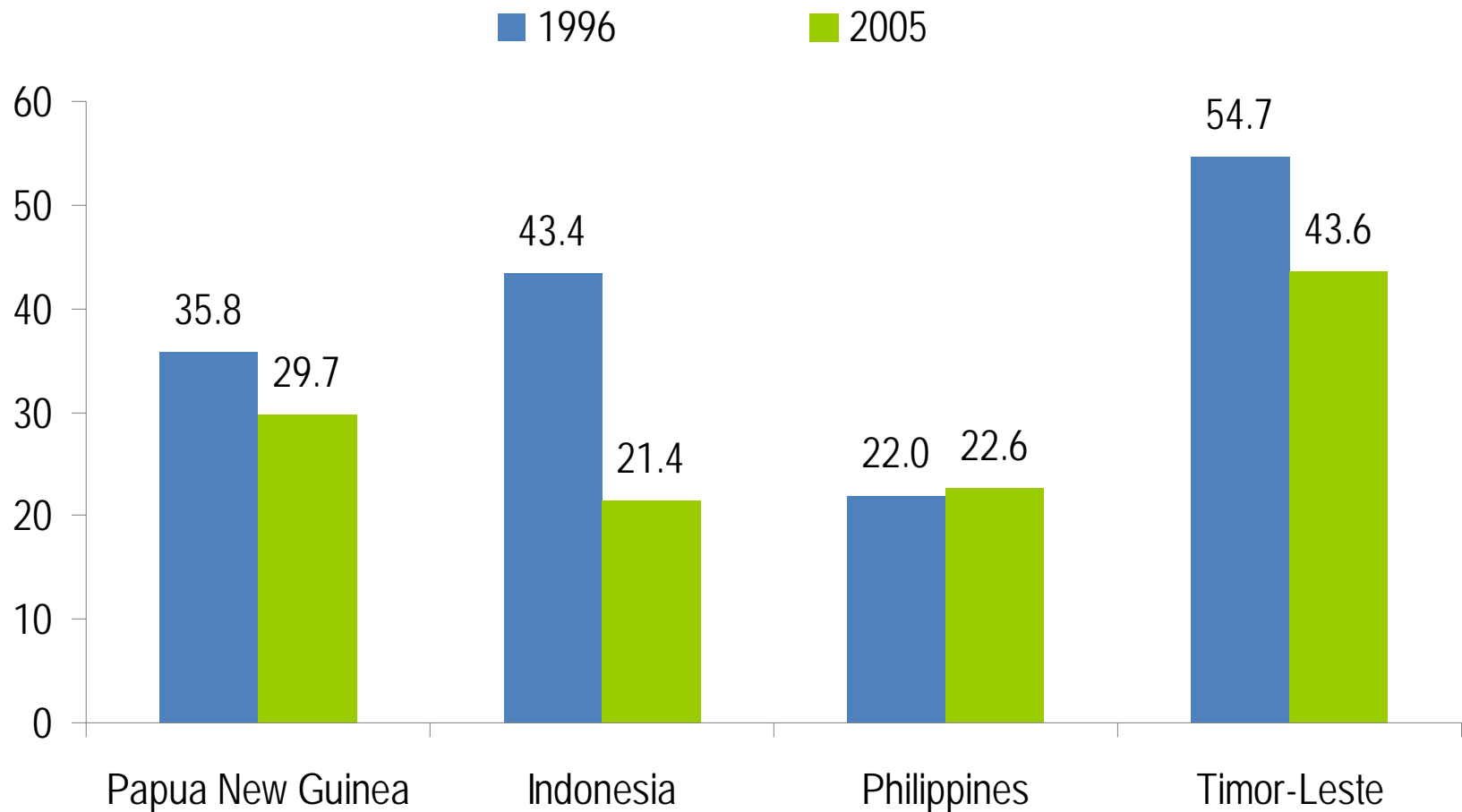


There has not been limited improvement in people's living standards or inequality in recent years.

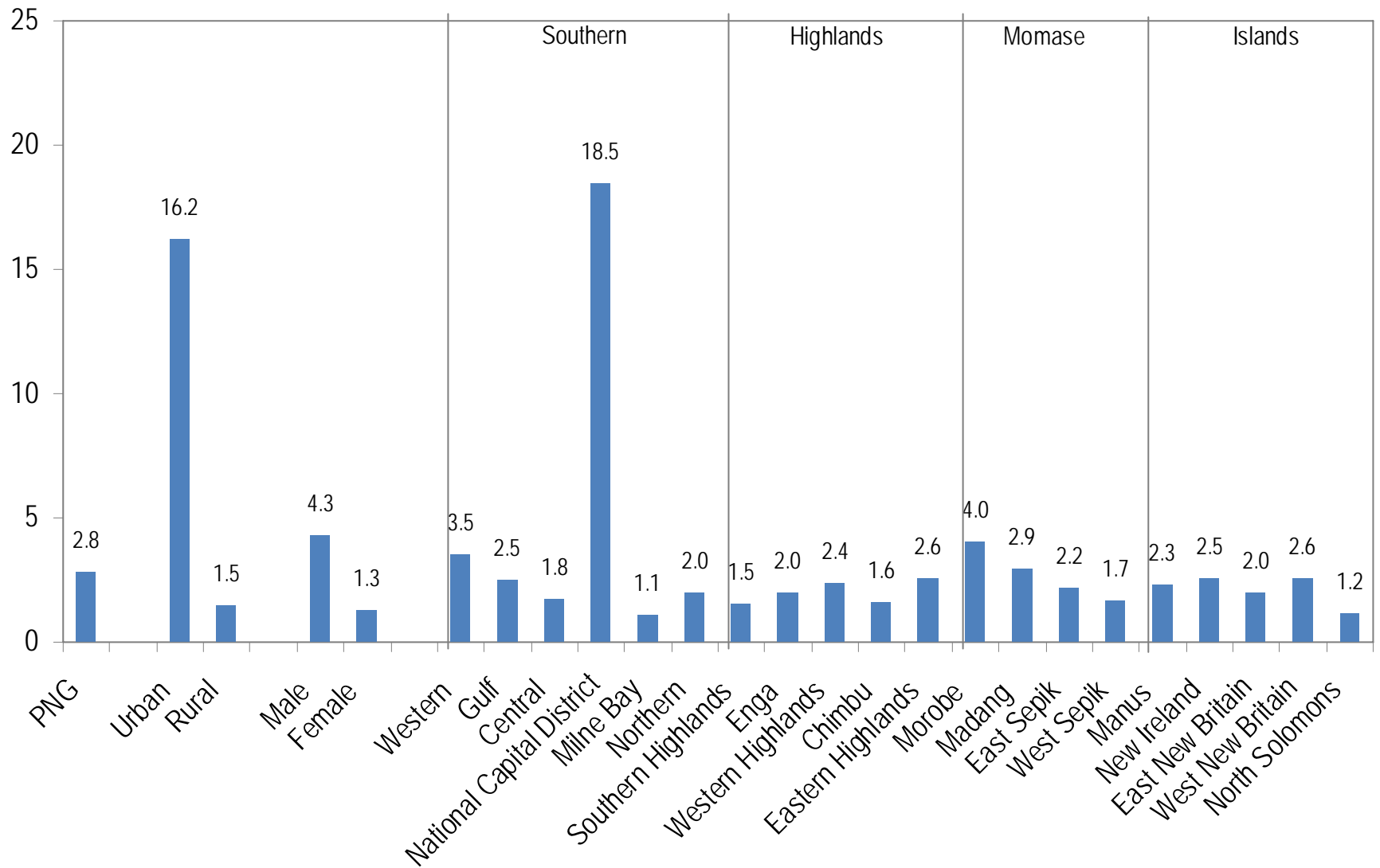


Sources: % people living below US\$1/day – World Bank. 2004. World Bank. 2004. *Papua New Guinea: Poverty Assessment*  
Gini coefficient – World Bank. 2004. *East Asia Update. Strong Fundamentals to the Fore: Regional Overview.*

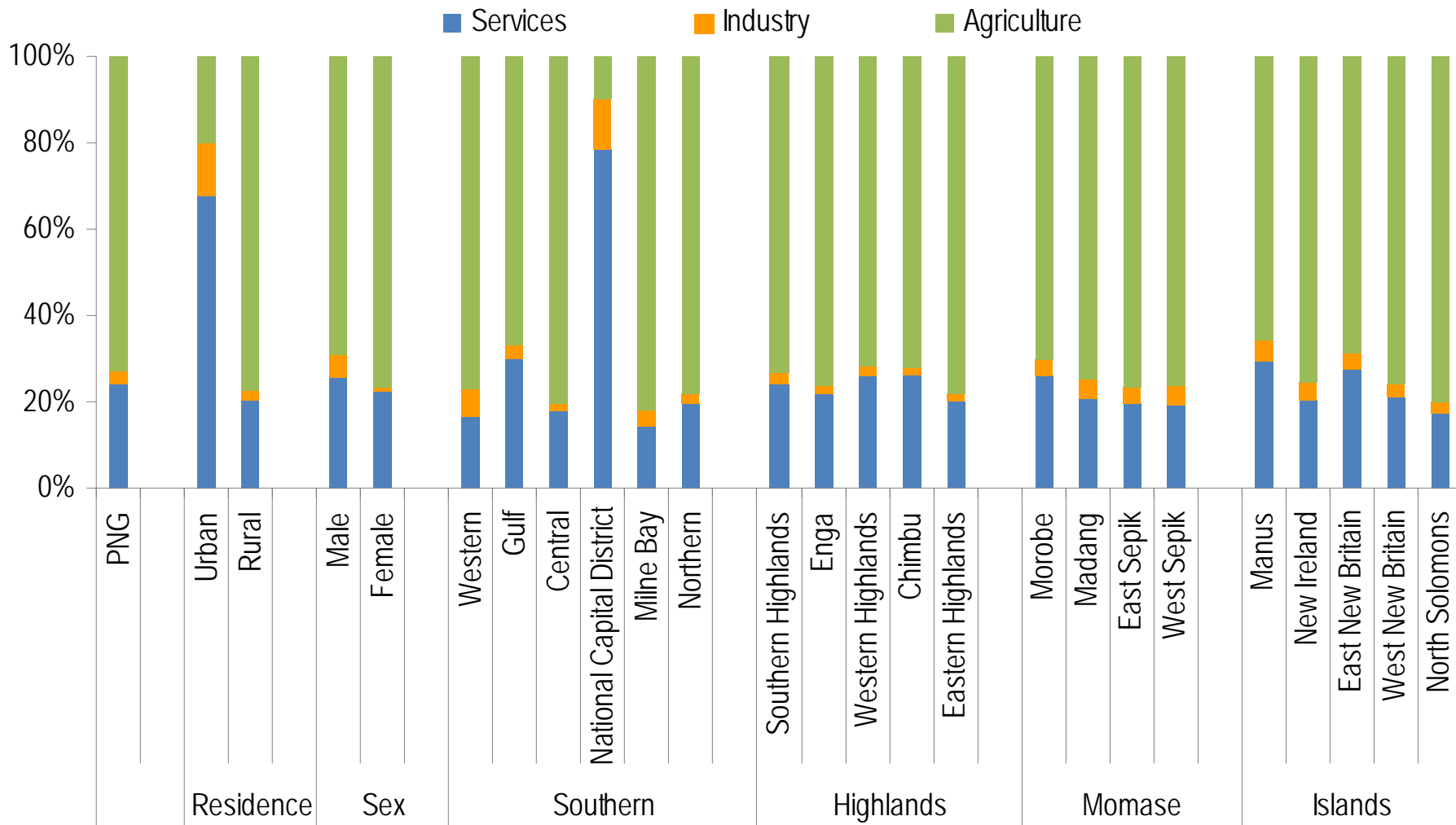
This is striking in comparison with other countries in the region where there has been a significant decline in the percentage of people living below \$1.25 per day (PPP 2005) over the years.



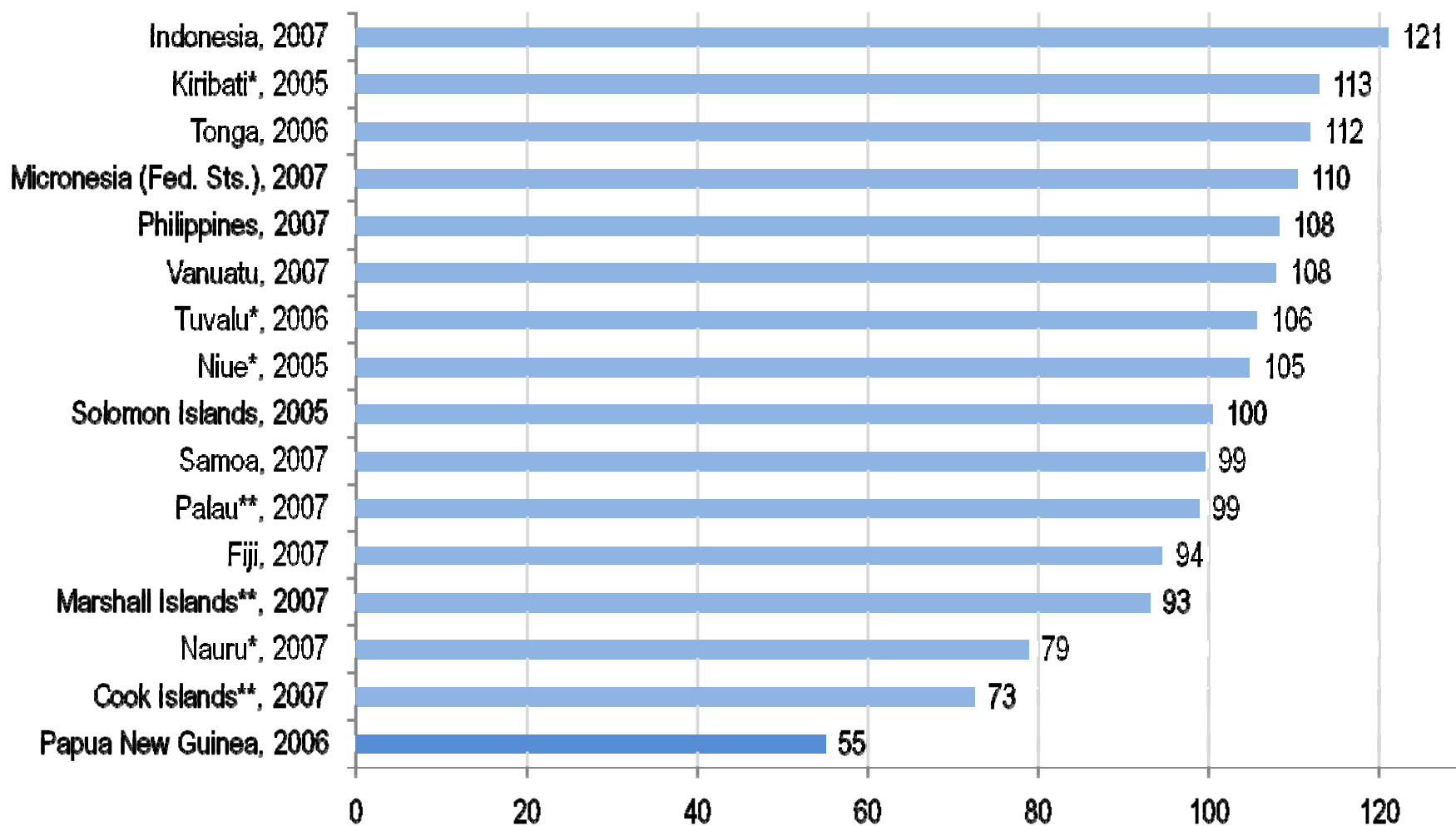
Unemployment rate (% , 2000) is low at the national level, but significantly high in National Capital District.



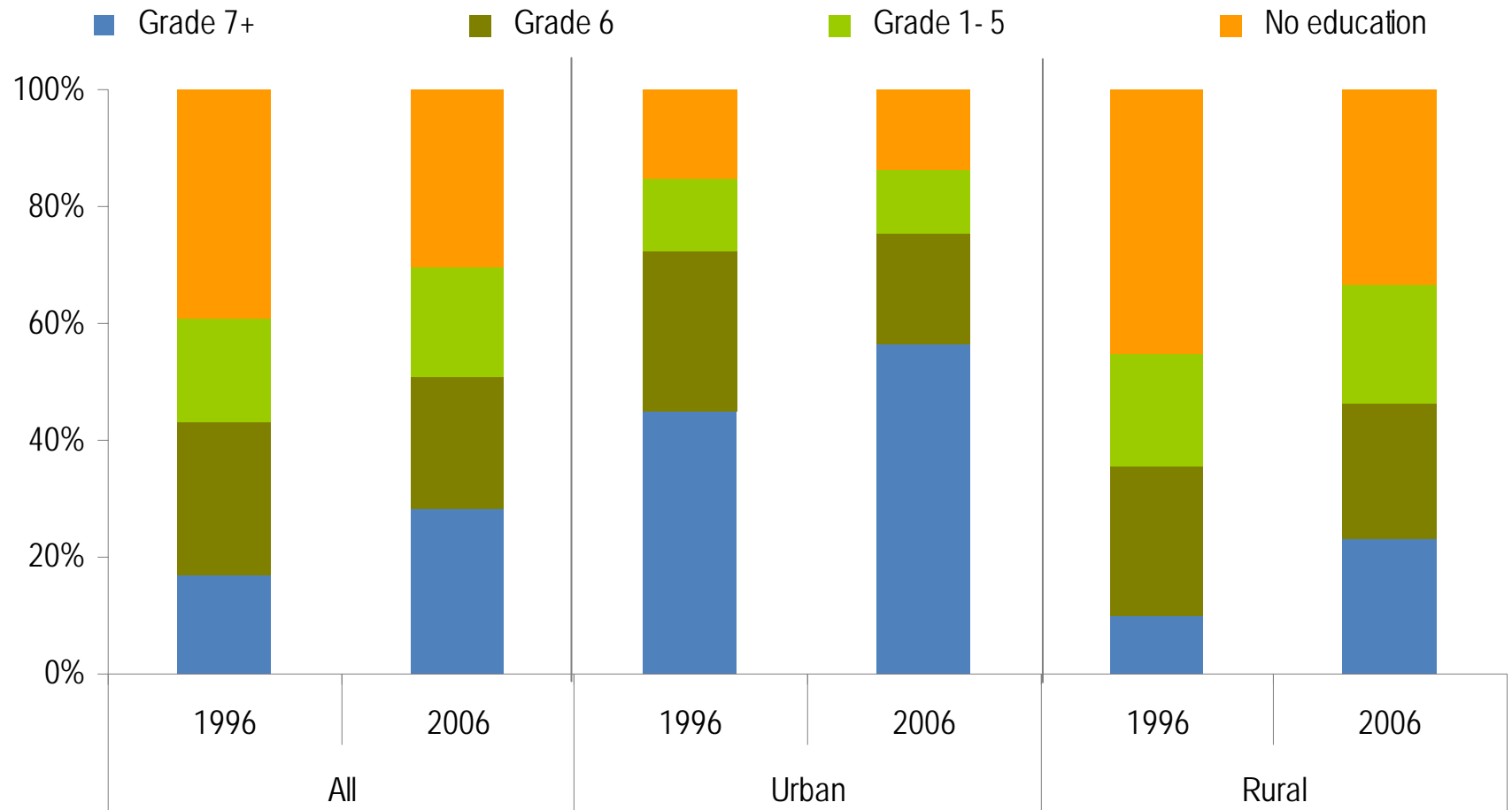
The majority of people work in the agricultural sector, except those in National Capital District where the services sector absorbs a large share of labor.



Gross enrollment rate (%) for primary education in PNG is much lower in comparison with other Asia-Pacific countries.

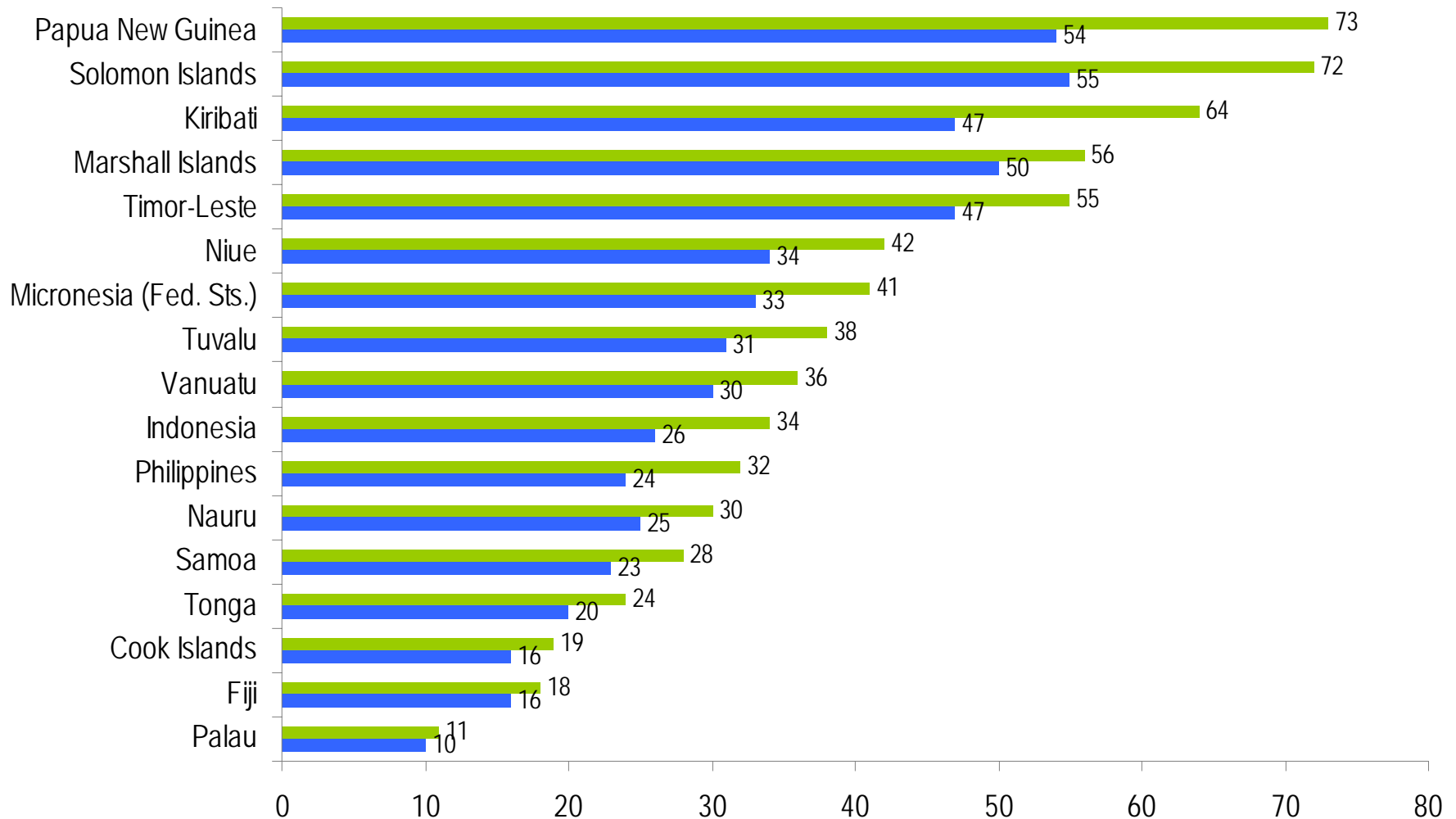


The education level increased between 1996 and 2006, though access to education seems better in urban areas than in rural areas (based on the highest education attainment of women aged 15-49 years old).

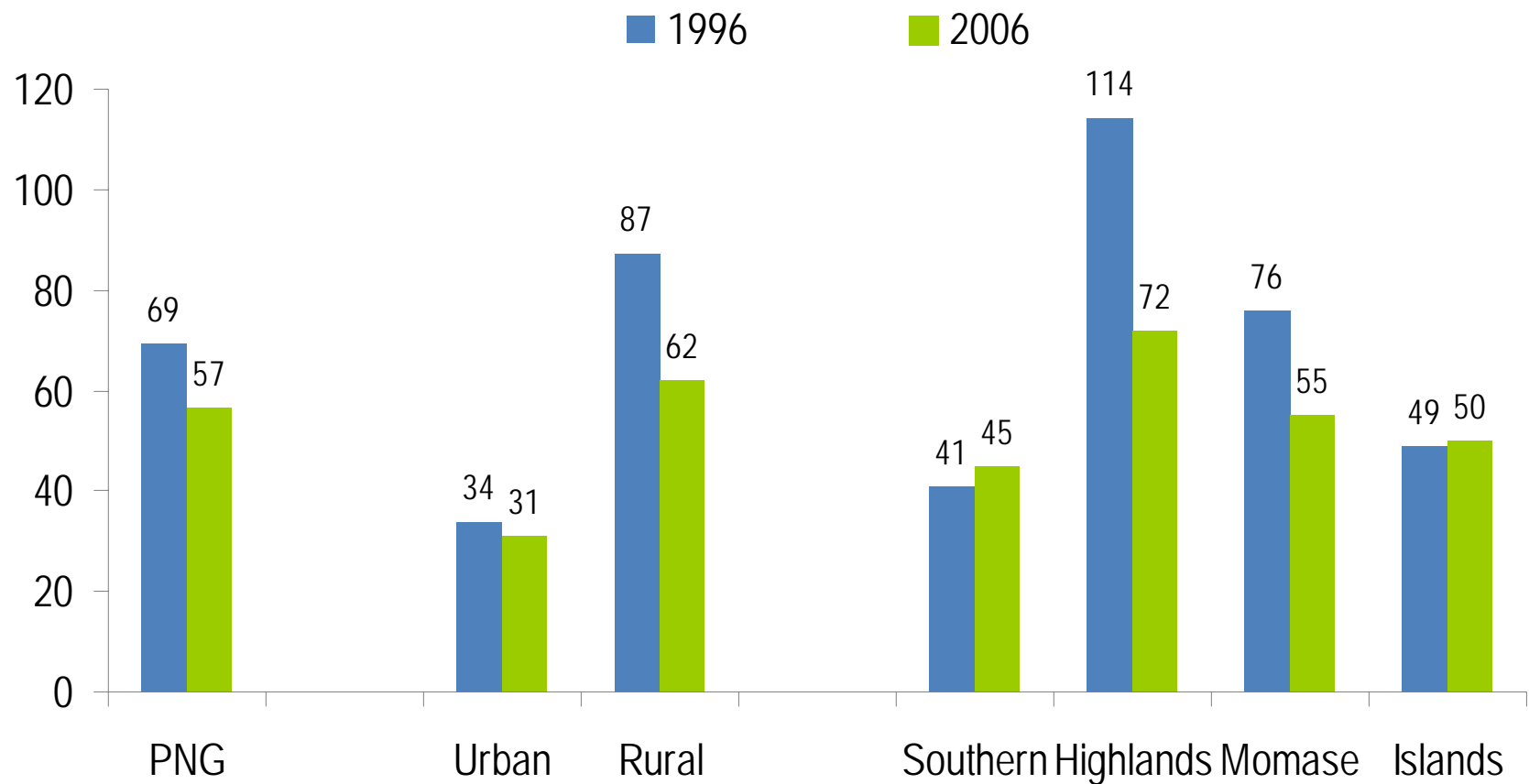


Sources: NSO. DHS 1996 and 2006 National Reports.

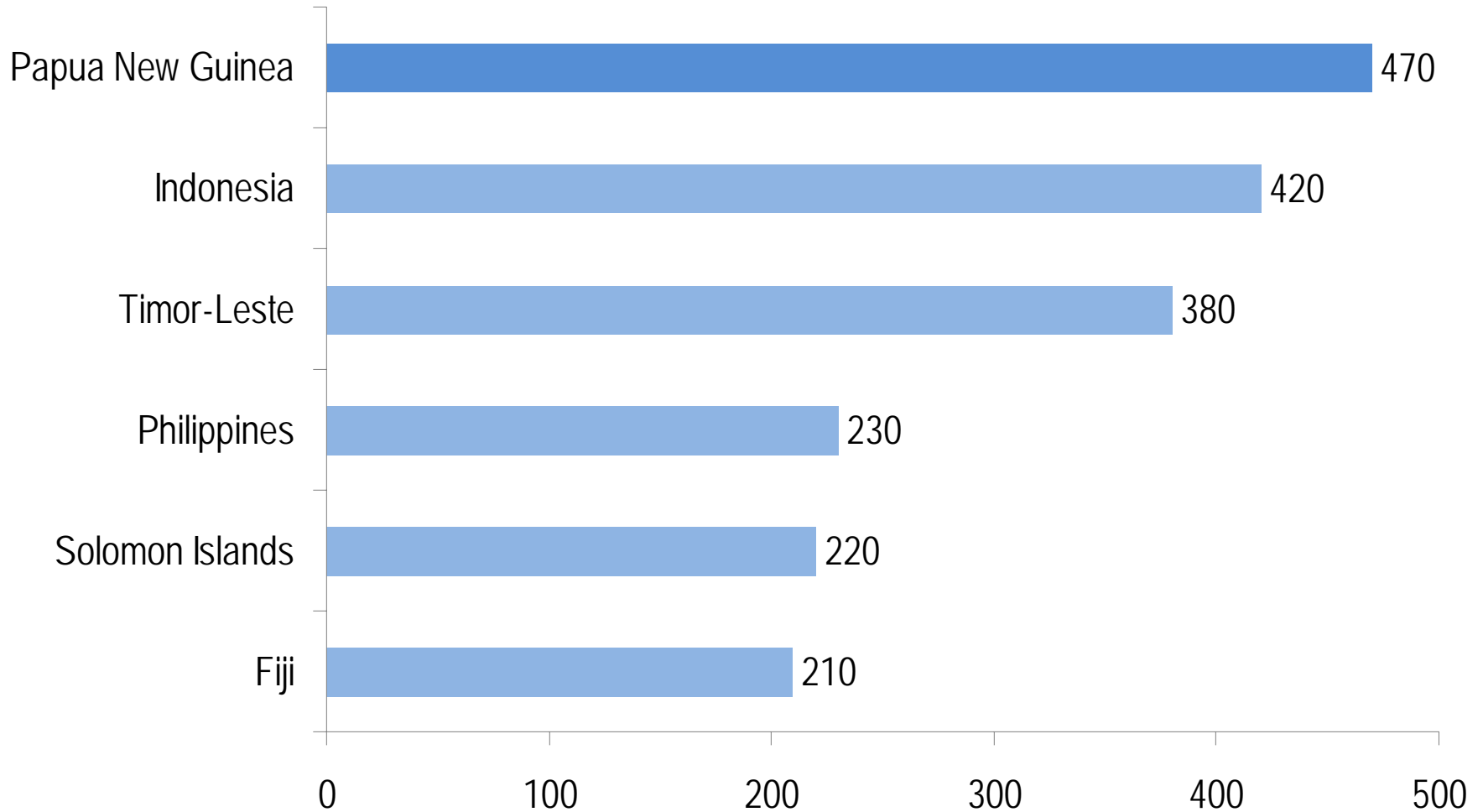
Both infant and under-five mortality rates (per 1,000 live births, 2007) in PNG are also greater than other Asia-Pacific countries.



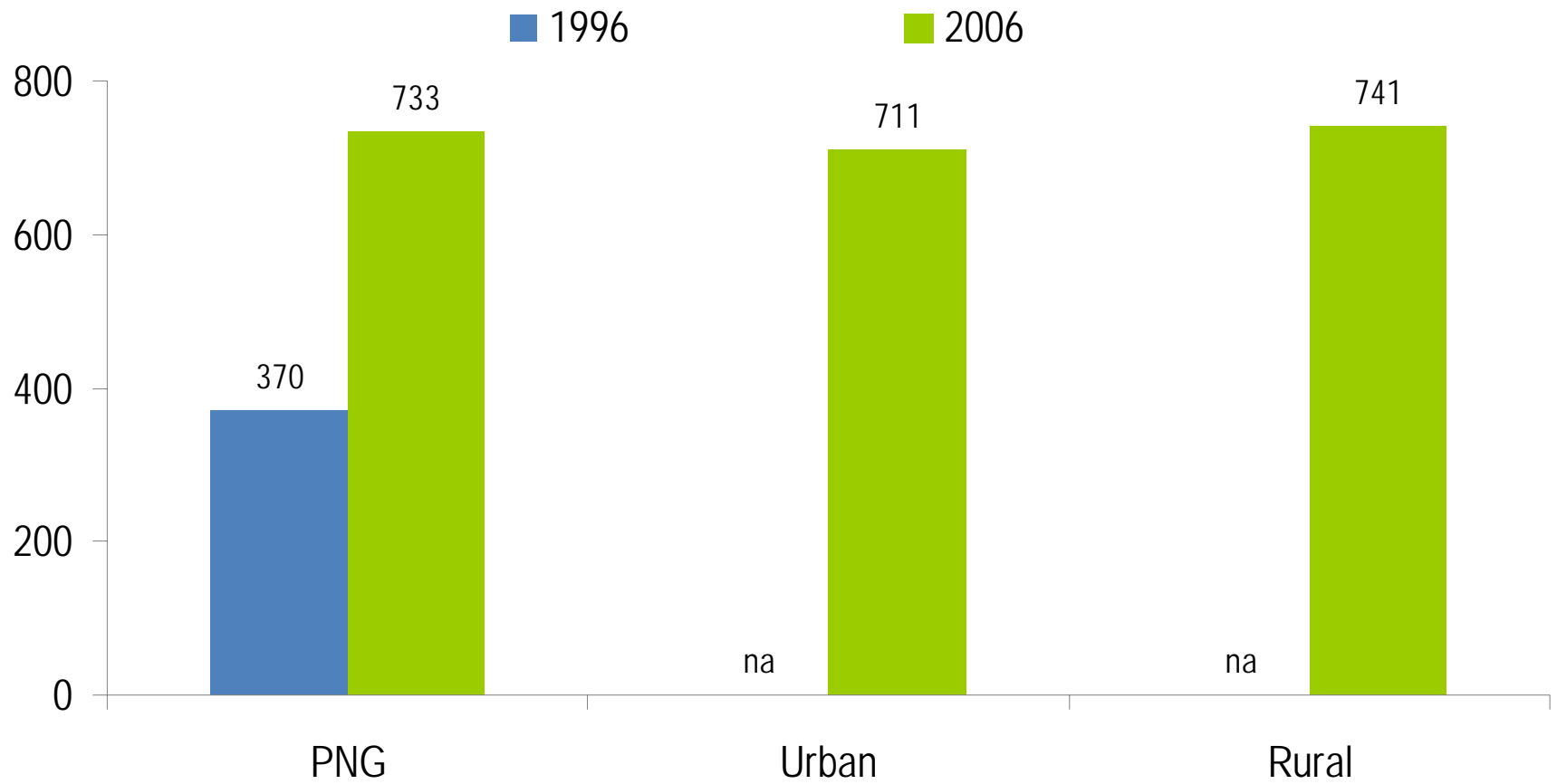
There was some decline in infant mortality rates (per 1,000 live births) between 1996 and 2006, though some regions observed an increase.



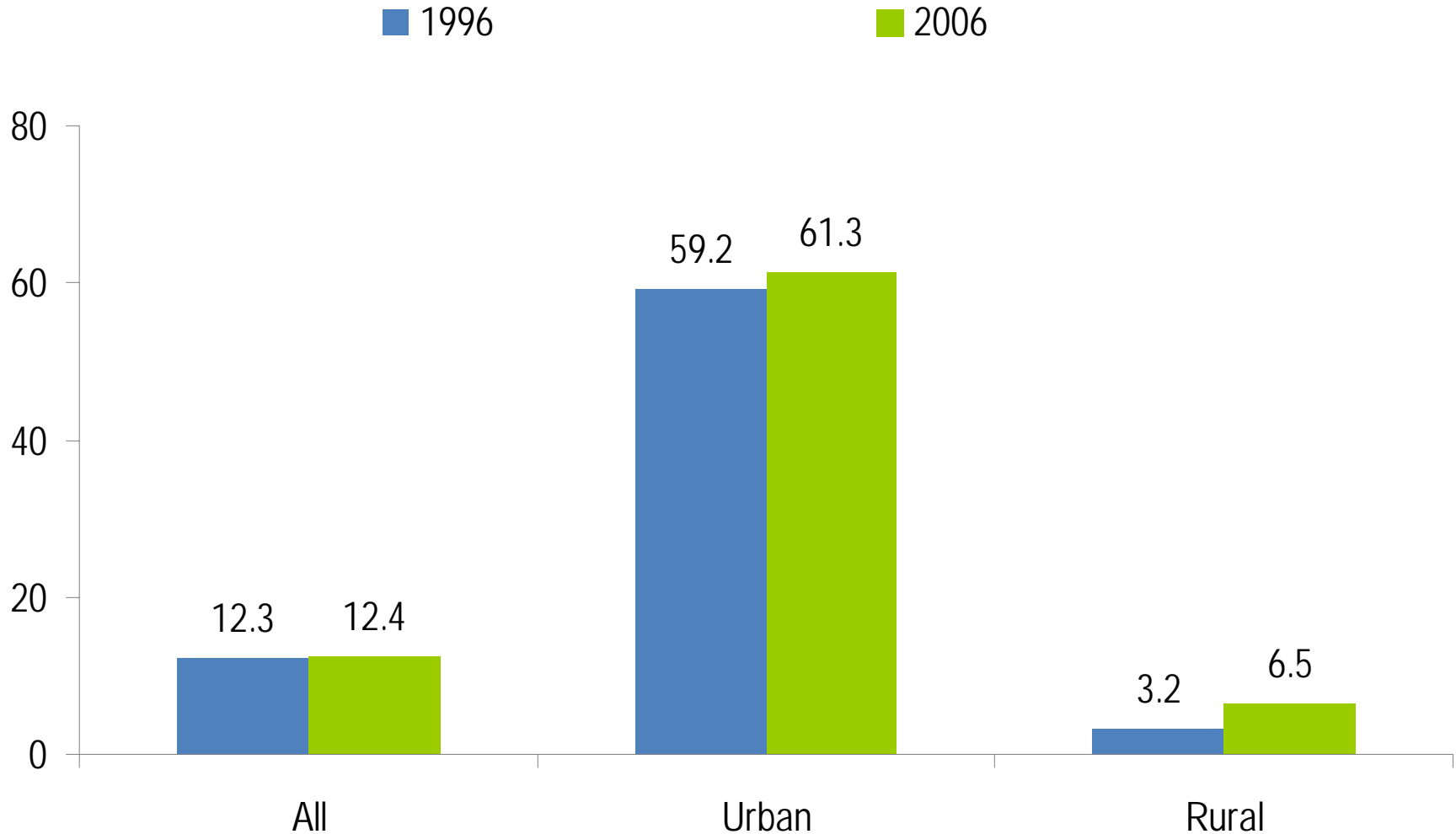
Maternal mortality rate (per 100,000 live births, 2005) in PNG is much higher than its neighboring countries.



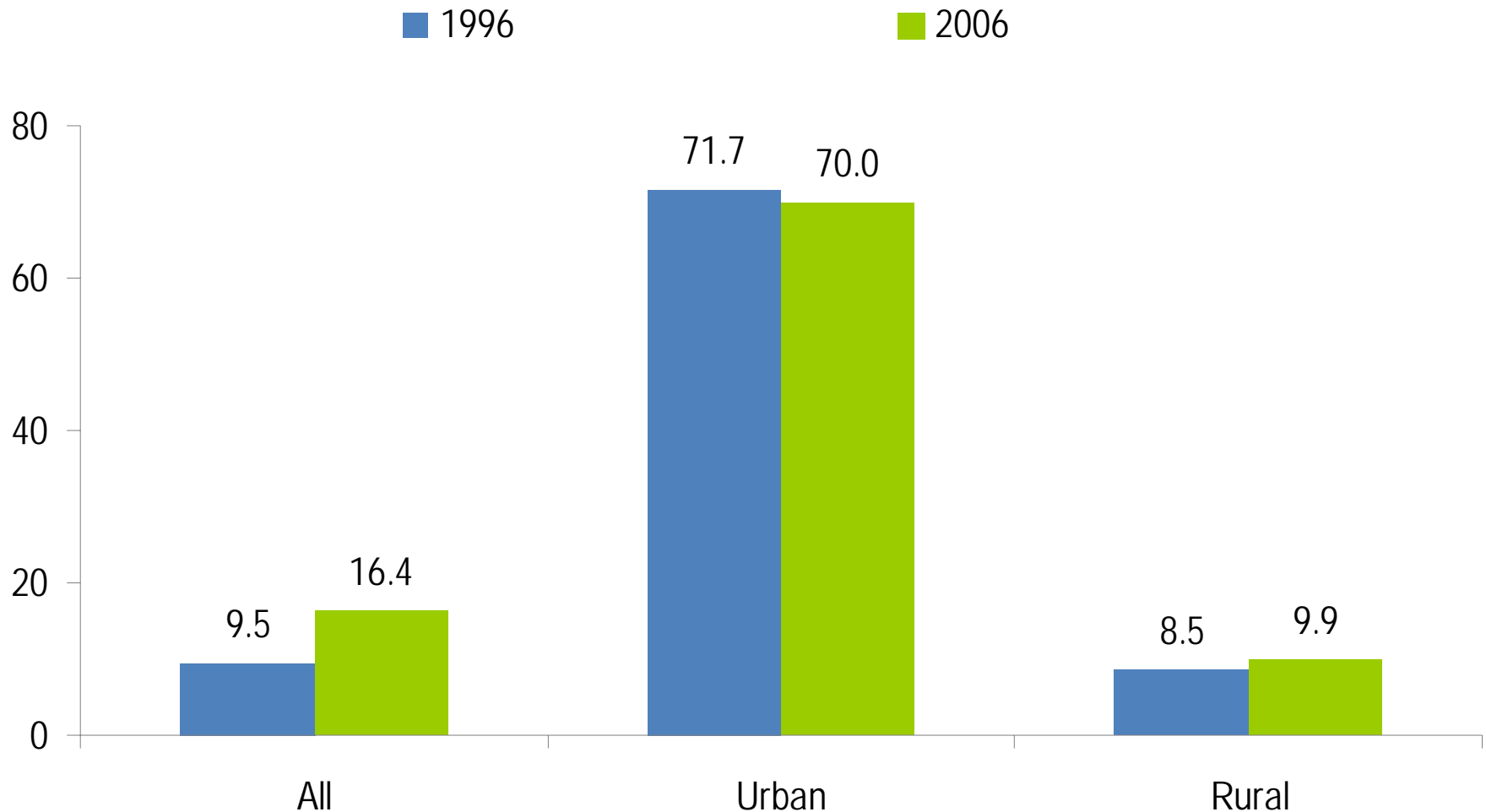
Maternal mortality rates (per 100,000) increased between 1996 and 2006.



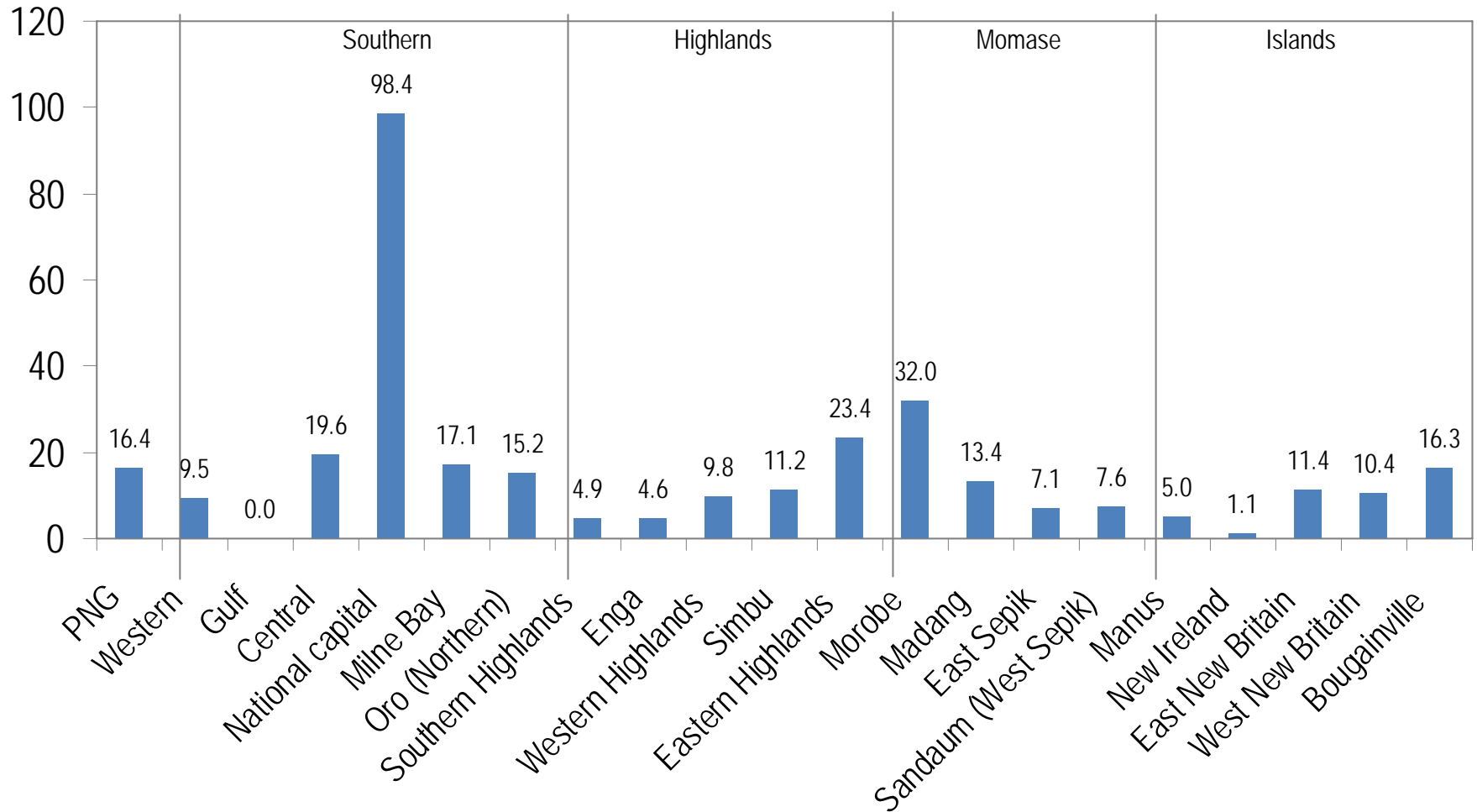
There was limited improvement in households' access to electricity (%) between 1996 and 2006, though rural households' access remains very low in comparison with urban households.



There was some improvement in households' access to piped water (%) 1996 and 2006, though there still remains a significant disparity between urban and rural households.

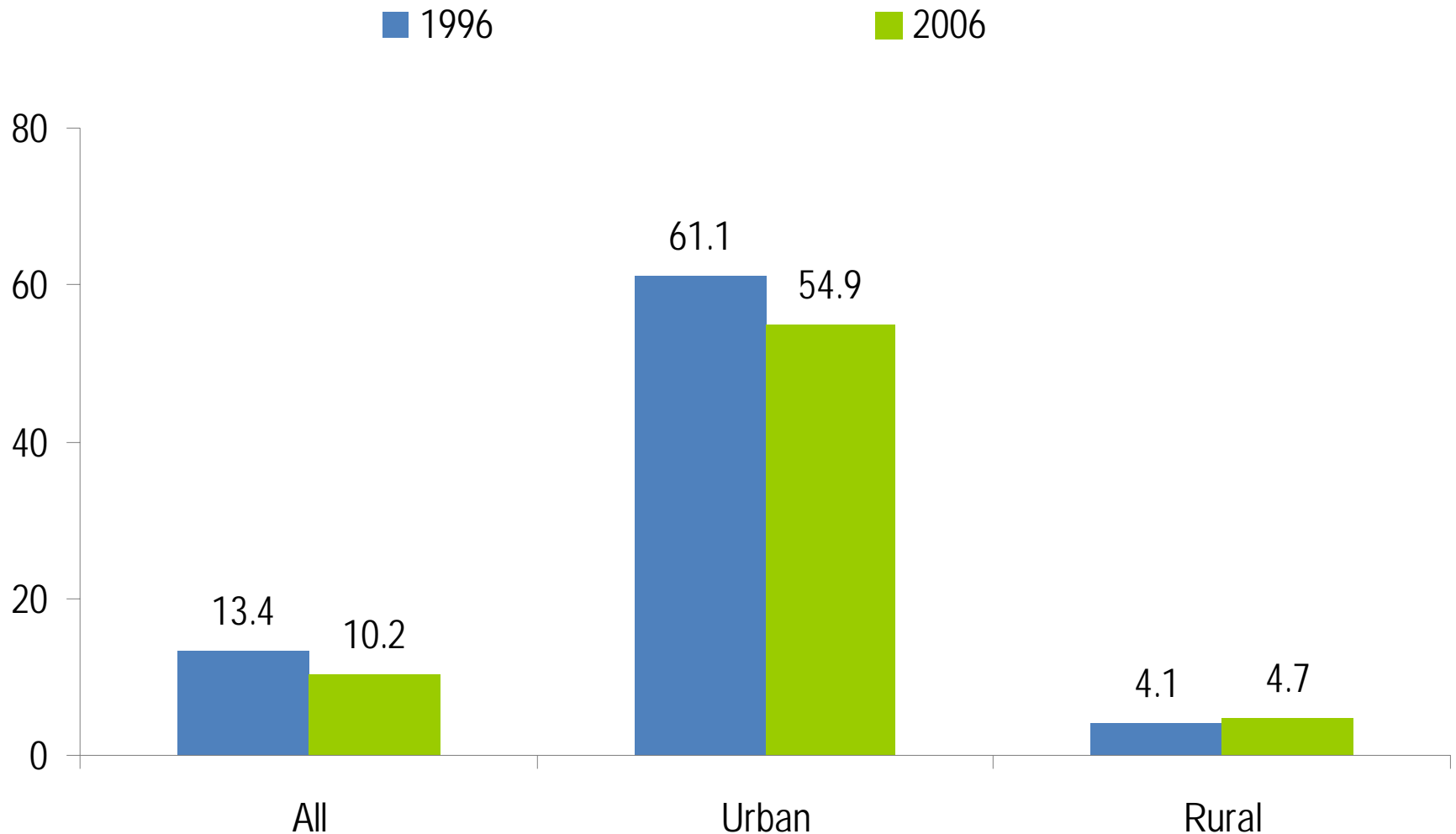


# Unequal access to piped water is more visible across provinces (% , 2006).



Sources: ADB staff calculations based on 2006 PNG Demographic and Health Survey data.

Households' access to improved toilet (%) deteriorated in urban areas between 1996 and 2006, though it is still much higher than households' access in rural areas.



Sources: NSO. DHS 1996 and 2006 Reports.

Note: Improved toilets include flush toilet, shared flush toilet and improved latrine.



# Formal Social Protection Index

	SP Expenditure (% of GDP)	SP Coverage (%)	Distribution Effect of SP (%)	Impact of SP on Income (%)	SPI Ranking
<b>PNG</b>	<b>0.3</b>	<b>1</b>	<b>9</b>	<b>3</b>	<b>31</b>
<b>Asia</b>	<b>4.8</b>	<b>35</b>	<b>57</b>	<b>23</b>	<b>-</b>
Indonesia	1.9	40	71	8	18
Malaysia	4.0	38	56	19	14
Philippines	2.2	33	30	5	22
Viet Nam	4.1	40	71	17	13
Cook Islands	3.6	67	100	29	6
Fiji Islands	2.9	13	22	8	27
Nauru	6.5	31	74	24	12
Tonga	1.3	11	11	2	28
Vanuatu	1.1	13	10	2	29

Source: ADB (2008)

