

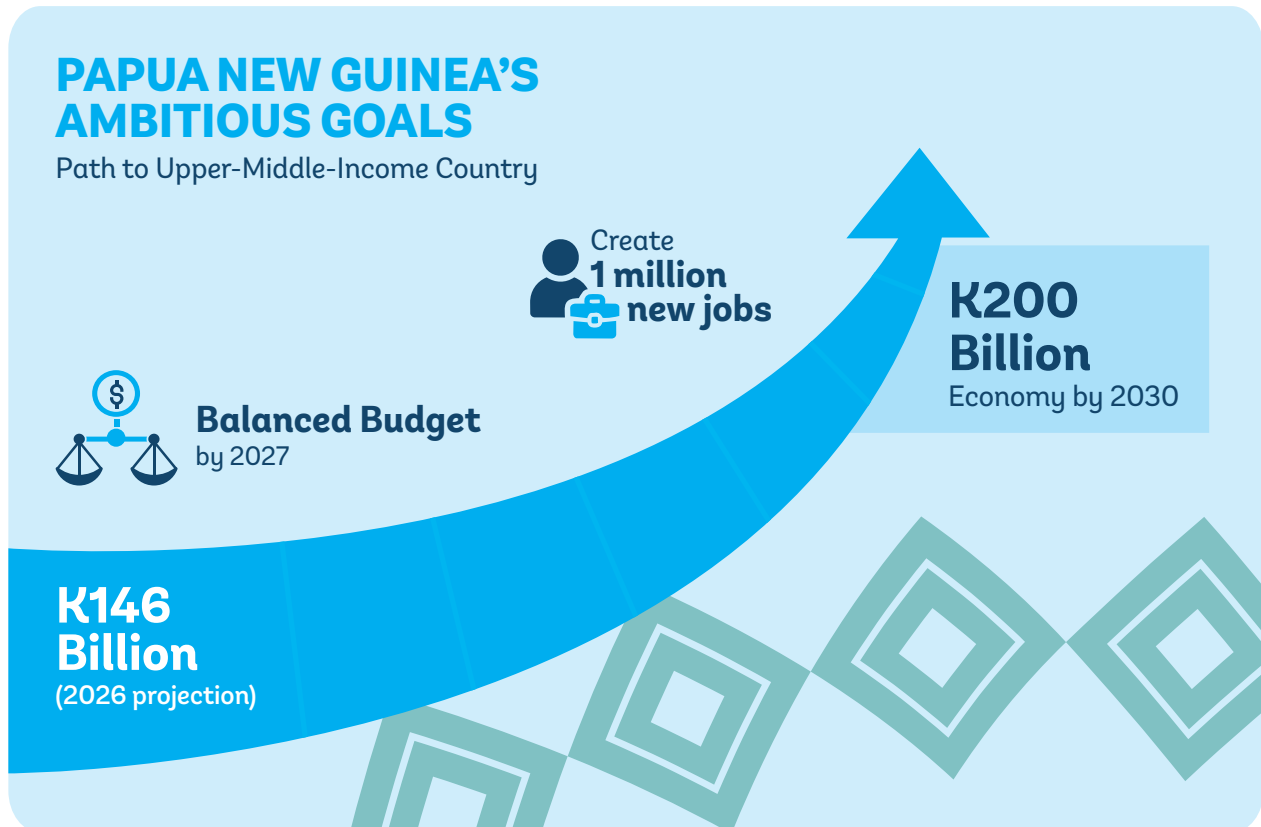
PAPUA NEW GUINEA
PUBLIC FINANCE REVIEW

**CONVERTING RESOURCE WEALTH
INTO HUMAN CAPITAL:**
*Rebalancing Public Finances for Sustainable
and Inclusive Growth and Jobs*

SUMMARY REPORT



The Government of Papua New Guinea (PNG) has ambitious goals. It wants to create one million jobs, achieve a K200 billion economy by 2030, and produce a balanced budget by 2027. These milestones underpin the Government's broader ambition to place PNG on a sustainable path toward upper-middle-income status.



The Government has already made important progress through tax reforms and efficiency gains, but these efforts alone will not be enough to finance those ambitious goals.

Closing this gap requires stronger revenue collection, particularly from the resource sector, and better public spending.

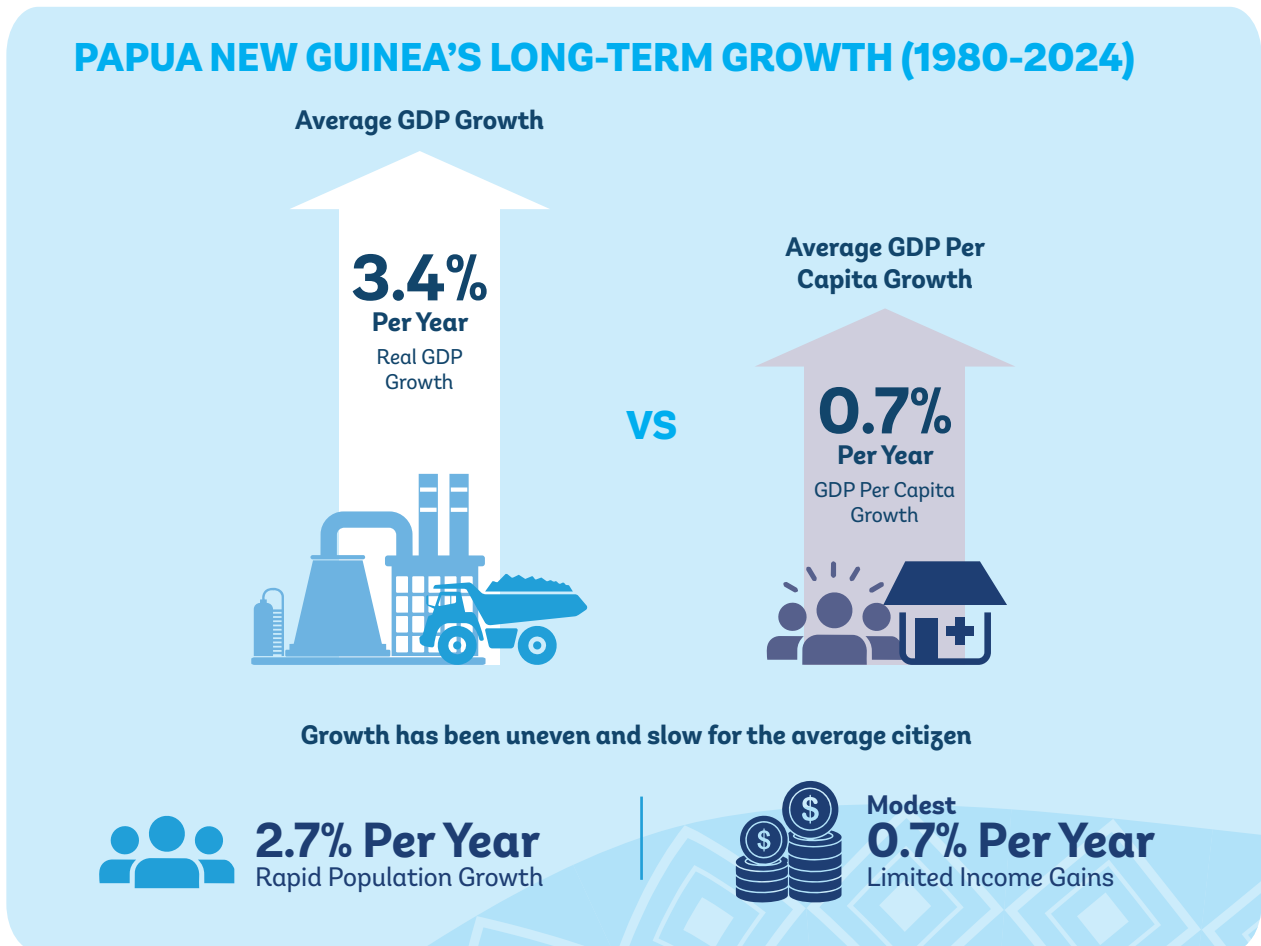
The gains made should be invested in human capital. Underinvestment in health, education, and social protection is holding back productivity, job creation, and opportunities for a rapidly growing group of young Papua New Guineans.

The PNG Public Finance Review examines these challenges and offers practical policy priorities to strengthen public finances and human capital, so PNG can achieve its ambitions.

What are the concerns?

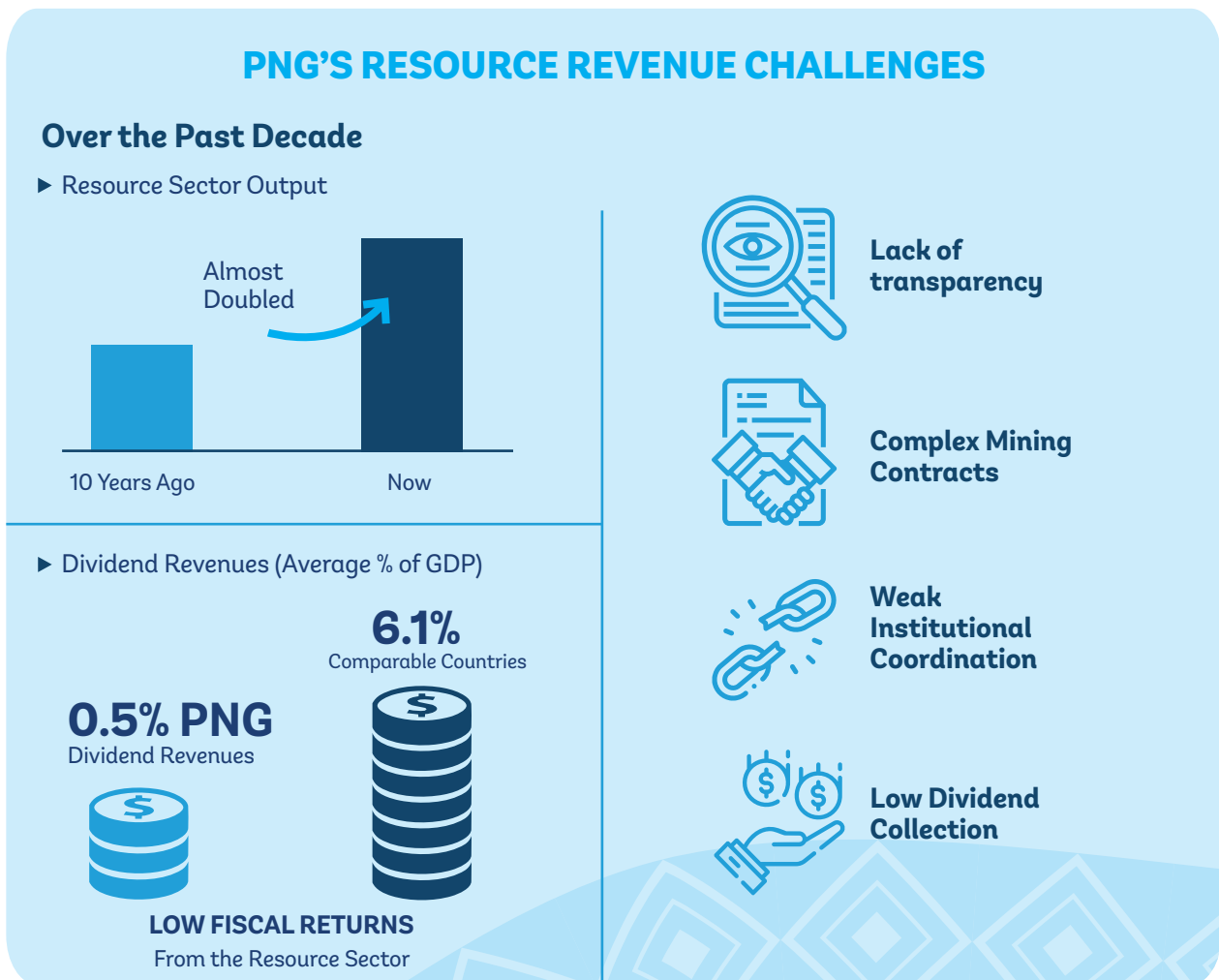
Resource sector wealth is not reaching the people

PNG has vast natural resource wealth but has struggled to convert it into broad benefits for its population. Although the sector has boosted economic growth and, in peak years, contributed over 25 percent of tax revenues, these gains have not translated into better human development outcomes.



Over the past decade, tax revenues from the resource sector averaged just 1.4 percent of GDP, even as the extractive sector's output almost doubled. Dividends averaged 0.5 percent of GDP, compared to 6.1 percent of GDP average for PNG's peers. Poor transparency, complex mining contracts, weak institutional coordination, and weak dividend collection suppress fiscal returns from the sector.





Together with volatile commodity prices and governance challenges, these structural weaknesses prevent PNG from capturing the full value of its natural resources.

Public spending on development priorities in PNG is both inadequate and inefficient

Structural imbalances in PNG's budget make it harder to turn policy priorities into results. Wage pressures—especially teacher and health-worker payrolls—keep pushing recurrent spending higher. Meanwhile, capital budgets are often overestimated and poorly executed. Many planned investments remain unfinished, weakening the budget's role in driving development.

Despite significant allocations, public spending remains inefficient, delivering less than it should, particularly at the subnational level. Opaque funding mechanisms, high administrative costs, and weak tracking of capital spending mean public resources often fail to deliver better services and infrastructure.

Provincial Services Improvement Program and District Services Improvement Program funds operate largely outside the core budget system. This limits transparency over how resources are used. Often, Provinces also underspend large portions of their budgets and carry forward significant unspent balances. Weak financial reporting, delays in cash releases, and inconsistent classifications between national and provincial systems further disrupt planning and service delivery.

Moreover, capital spending is difficult to measure accurately. Government "development spending" under the Public Investment Program often includes goods and services, grants, and technical

assistance. At the same time, the Integrated Financial Management System records only spending explicitly coded as capital formation, in line with the internationally comparable capital spending.

These classification and measurement gaps make it difficult to determine how much public investment is actually taking place. They also weaken accountability for results across national and provincial agencies.

PNG's future depends on the health and skills of its people. Yet spending on health and education remains low and inefficient, and social protection systems are weak

Available indicators suggest that PNG faces substantial human capital constraints. One in every 25 children dies before the age of five, and nearly half of young children are stunted. Stunting alone is estimated to cost Papua New Guinea around 2.8 percent of GDP each year, holding back productivity, jobs, and opportunities for the next generation.

On education, outcomes are among the weakest globally: only 18 percent of 20–24-year-olds complete upper secondary, and 72 percent of 10-year-olds cannot read and understand an age-appropriate text. In this regard, PNG is among the lowest performers worldwide.

These gaps have lasting consequences. The Human Capital Index estimates that a child born in PNG today will realize only 42 percent of their potential productivity. Together, these indicators highlight the urgent need for sustained investment in basic health, nutrition, and foundational learning.

But spending remains too low. Health spending—at just 1.9 percent of GDP—remains below that of regional and aspirational peers. Education spending at 3.7 percent of GDP falls below regional benchmarks.

Weak education and health outcomes reduce productivity and limit the supply of skilled workers. As a result, private investment stays low and PNG remains reliant on capital-intensive extractive industries rather than more job-creating sectors like agriculture.

What can be done?

Improve resource revenue collection and reporting

PNG needs a coordinated, whole-of-government approach to strengthen its revenue base. This includes reforms to non-resource taxes, resource-revenue management, tax policy, and tax administration.

- In the resource sector, PNG could increase revenues by an estimated 1.7 percentage points of GDP compared to the 2022–24 average by: increasing dividend payouts from state-owned resource enterprises, lifting the share of net proceeds they return to the budget; and strengthening locked-in fiscal terms for resource projects.
- Publishing Extractive Industries Transparency Initiative (EITI) reports and audited annual reports from state-owned enterprises would strengthen oversight, reduce mismanagement, and help ensure that revenue due is paid to the government.
- Beyond the resource sector, PNG could raise up to 4.1 percent of GDP by strengthening tax policy and administration, including phasing out exemptions, broadening the base, and improving reporting and compliance.

Ensure expenditure efficiency—spend better to deliver more

PNG can make rapid progress by making public financing more predictable, transparent, and accountable across all levels of government. This means publishing Provincial Services Improvement Program and District Services Improvement Program spending with proper classifications, capping administrative costs, and directing resources to the provinces with the greatest needs.

Stronger service-delivery agreements tied to clear results—such as staffing levels, school attendance, and maintenance—will also help ensure funding translates into real improvements.

To improve service delivery and ensure that capital spending delivers real results, PNG could also strengthen how it measures capital expenditure by aligning all agencies to a Government Finance Statistics-consistent classification. This would improve visibility on execution rates and provide a clearer picture of whether development spending is reaching communities.

Finally, a reliable cash-release calendar and tighter carry-over controls will ensure money gets to frontline clinics and schools when it is needed most—shifting funds from overheads to tangible results.

PNG could also modernize how public servants are paid and managed to improve efficiency. At the same time, strengthening systems for classifying and reporting expenditure, and expanding public access to procurement information, would help reinforce trust and accountability.

Savings from these reforms, approximately 1.5 percent of GDP, can then be redirected to essential social services and much-needed capital investments.

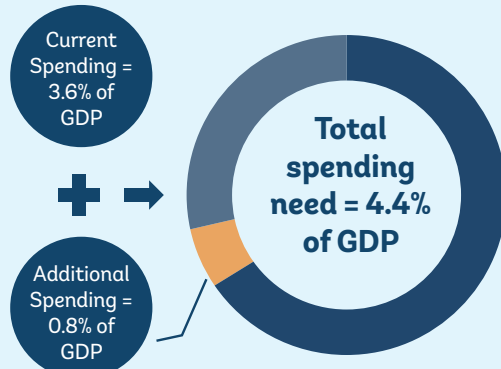
Increase the envelope for human capital

Strengthening human capital outcomes in Papua New Guinea will require smarter and higher investment, with total social spending of at least 10 percent of GDP. In education, PNG needs to lift spending by around 0.8 percent of GDP—to 4.4 percent of GDP—while focusing on cost-effective reforms such as structured teaching methods, adequate textbooks, expanded early childhood education, and better teacher deployment.

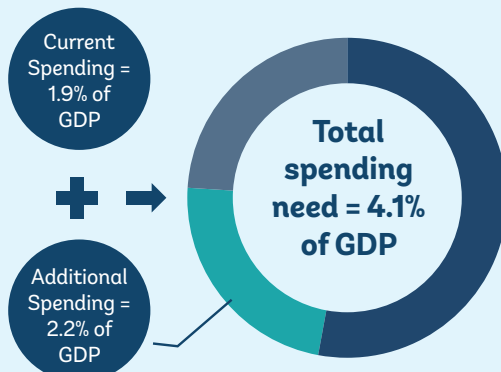
In health, a stronger focus on primary care would help improve service delivery. This includes greater investment in frontline workers, health function grants, primary health care infrastructure, essential medical supplies, and church health services. This will require an additional 2.2 percent of GDP each year, bringing total health spending to about 4.1 percent of GDP.

What is required?

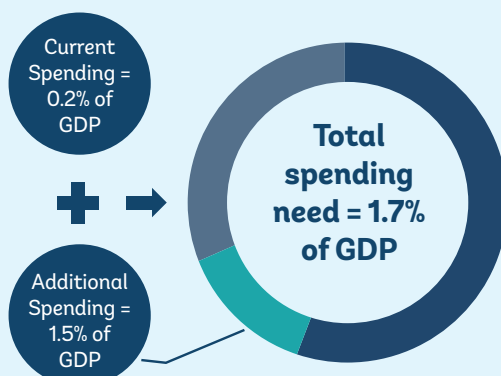
Education



Health



Social Protection



For social protection, PNG could build a proper safety net by scaling up proven pilots and putting national delivery systems in place. Institutionalizing these programs would cost around 1–1.5 percent of GDP annually but would provide essential support to vulnerable households and strengthen resilience.

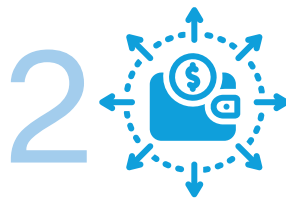
The Path Forward

Papua New Guinea stands at a critical juncture. The country possesses the natural resources needed to transform lives and build prosperity. Realizing this potential requires decisive action.

The government can build momentum by focusing on three priorities:



First, ensure resource wealth generates fair returns through greater transparency and stronger dividend and tax collection.



Second, make every kina spent on development deliver stronger results through more efficient spending.



Third, invest more in health, education, and social protection so Papua New Guineans have the skills and strength to participate in the economy.

These changes will not happen overnight, but the evidence is clear: without them, PNG's resource wealth will continue to slip away. However, with focused reforms and sustained commitment, PNG can turn its natural advantages into better services, better opportunities, and ultimately more jobs.



