



INSTITUTE OF  
NATIONAL AFFAIRS

## INA Discussion Paper 124

A Two-decade Case Study

# PNG Sustainable Development Program Ltd.

John Wylie





Institute of National Affairs: Discussion Paper No. 124

First published: December 2025

Published by: Institute of National Affairs  
PO Box 1530,  
Port Moresby,  
NCD,  
Papua New Guinea

Copyright © 2025 Institute of National Affairs

ISBN 9980-77-440-1

National Library Service – Papua New Guinea

Cover Photo: © Rocky Roe

**PNG Sustainable Development Program Ltd.**  
A Two-decade Case Study

---

## Contents

<b>Foreword</b> .....	4
<b>Preface:</b> .....	5
<b>SDP Beginnings:</b> .....	6
<b>The Start-up Years:</b> .....	8
<b>Next Phase:</b> .....	9
<b>Expropriation and Shutdown:</b> .....	12
<b>Defensive Litigation:</b> .....	15
<b>Funds Management:</b> .....	17
<b>Funds Under Management</b> .....	18
<b>Program Relaunch:</b> .....	18
<b>Political Challenges:</b> .....	21
<b>Delivered Outcomes:</b> .....	22
Balimo Hub.....	22
Daru Hub .....	23
Lake Murray Hub.....	24
Morehead Hub .....	24
Pipeline Prospect.....	24
<b>Managing Setbacks:</b> .....	24
Legacy Project Failures:.....	24
New Project Failures: .....	25
Corruption Challenges: .....	26
Deal Structures:.....	27
Partner Performance:.....	27
Strategy Resets:.....	29
Poorly Aligned Agendas: .....	29
Legal Distractions: .....	30
<b>Organisation Implications:</b> .....	31
<b>Future Possibilities:</b> .....	31
<b>About John Wylie</b> .....	33

## Foreword

The PNG Sustainable Development Program (SDP) provides an important case study for managing and investing the proceeds from resource projects, running an endowment fund, with characteristics of a sovereign wealth fund, established for the long term benefit of the entire population of a province, in this case physically the largest province in PNG.

PNG has had a long experience with stabilisation funds, going back to the agricultural commodity stabilisation funds, which operated through the 1970s and 1980s, but were largely exhausted during an extended period of low prices in the late 1980s/early 1990s. They were largely well managed, and even commended in the World Bank's World Development Report in 1990 as providing a global role model, but faced the challenge of seeking to sustain reasonable producer prices over an extended period, with adequate inflows (from levies) during the rosier years. During those years with higher prices the funds were sometimes criticised as paternalistic, even taxing the farmers, who might have benefited from receiving the full proceeds up front. The Mineral Resources Stabilisation Fund (MRSF) was intended to buffer the fiscal flows, as well as contribute to macro-economic stability, but it was essentially mortgaged in the early 1990s and exhausted by the mid-1990s, when revenue from the Bougainville, in particular, had ceased and new resource projects were yet to provide substantial revenue, and at a time when the State was eager to increase, rather than restrain, public expenditure on the back of (imagined) increased resource revenue. The government's track record with innumerable trust funds has been disappointing or worse, including from the so-called 'windfall revenue' of 2007-2009.

SDP was established under unusual, indeed unique circumstances, in terms of the associated structure and conditions, its initial ownership of the Ok Tedi mine and major early revenue stream. It experienced extraordinary changes and pressures in its relatively short 20+ year life, but despite the loss of the main revenue flow, with the expropriation of the Ok Tedi equity, it has not just survived, but been partially restored with a robust (albeit restrained) revenue flow, clearer, though narrower, expenditure focus in Western Province, robust status and persistence, and now stronger partnerships and cooperation with a range of stakeholders at the community, provincial, national and to some extent international levels.

This discussion paper by John Wylie provides a valuable history of PNG SDP, its purpose and evolving functions, challenges, performance and achievements, and some of the lessons learnt and potential pitfalls that are also pertinent for other trusts and endowments funds in PNG, whether associated with resource projects or established for other purposes and supported by other funding sources, such as environmental and climate funds, as well as for the long heralded Sovereign Wealth Fund. Not everyone will agree with all the views expressed in this paper, but that's the purpose of INA Discussion Papers, to provide informed insights, but also to stimulate constructive discussion. The INA certainly values the detail and insights provided in this paper; it does not necessarily concur with everything stated in the paper, as these are the perspectives and responsibility of the author alone, but the Institute certainly endorses the perspectives and priorities expressed with respect to the critical need for good governance and accountability, insulation of such funds, clear rules and oversight, and engagement with other stakeholders, particularly those whose needs and interests the fund is meant to service.

The Institute would like to commend John Wylie for this thought-provoking and informed paper, and, it should be mentioned in reflection, that we acknowledge John for having written the Institute's first discussion paper forty-eight (48) years ago, in 1977, on Foreign Investment Policy.

Paul Barker  
Executive Director

## Preface:

Papua New Guinea has struggled to attract the necessary resources and deploy them effectively to deliver beneficial outcomes for its disadvantaged communities. Recent shifts in global politics<sup>1</sup> have compounded this problem as has PNG's failure to attract support from some of the more innovative foundations and impact investors which mobilise capital flows and implementation capabilities for sustainable growth in other emerging markets<sup>2</sup>.

Mining projects in developing countries are increasingly expected to deliver inclusive and sustained benefits for the host country as part of their "social licence to operate". This requires effective institutional arrangements, which have increasingly included foundations, trusts and funds.

These vehicles can be particularly effective where there is a lack capacity due to poor political culture, a weak public service and widespread corruption. However, they must be properly integrated with their local context and structured to reflect their purpose, funding and management capabilities.<sup>3</sup>

Workable approaches can vary significantly:

- Grants to targeted beneficiaries versus actively managing the initiatives
- Fully endowed funds versus annual budget allocations from the mining company
- Geographic coverage (direct areas of influence versus national programs)
- Governance arrangements ranging from full autonomy (company ownership & control) to stakeholder influence through legal controls, advisory committees, board roles etc.

PNG Sustainable Development Program Ltd (SDP) provides a case study of how extractive industry benefits were shared over a twenty-year timeframe and how this organisation is now positioned to maintain these efforts in perpetuity. The following story outlines some of the challenges that were encountered to achieve these outcomes and how they were managed.

More importantly, it also provides some insights into how private capital can be deployed to catalyse sustainable development solutions in emerging markets and how the rapidly evolving

---

<sup>1</sup> Global aid cuts (USAID down 83%; UK, Germany, France, Netherlands down 25% etc); US trade tariffs; and escalating global conflicts.

<sup>2</sup> Global impact investing has surpassed USD 1.57 trillion, up from \$4 billion in 2010 although some argue that there is a mismatch between this flow of capital and the impact it is having on the ground (Karim Harji, Innovative Finance Initiative).

<sup>3</sup> "Sharing Mining Benefits in Developing Countries: The Experience with Foundations, Trusts and Funds" World Bank Working Paper 2011

impact investing sector could be leveraged to replicate some of SDP's successful projects elsewhere in Papua New Guinea.

## SDP Beginnings:

After copper and gold deposits were discovered in 1968, Kennecott commenced exploratory drilling in the remote Star Mountains before withdrawing in 1975. The PNG Government then negotiated a development agreement with BHP. The Mining (Ok Tedi Agreement) Act 1976 gave BHP the right to undertake further exploration and development activities which it pursued through a consortium, including Dampier Mining Company Limited, a subsidiary of Amoco Minerals, and a company representing three German copper companies.

The consortium's feasibility studies were submitted in 1979 and approved by the PNG Government in February 1980. After financing had been arranged, Ok Tedi Mining Limited (OTML) was incorporated with the three consortium members and the PNG State as shareholders. In mid-1981, the Special Mining Lease (SML) was granted for OTML to undertake the development (initial term of 21 years, renewable for a further term of 21 years).

OTML developed infrastructure to facilitate the mine project (roads, housing, airstrips, power supply and a port on the Fly River). During the construction phase, an earthquake destroyed the half-built tailings dam and it was decided to proceed with the project relying on a riverine disposal system.

The open cut mine commenced operations in 1984 and began discharging mine waste into the Ok Tedi River. These waste volumes (which reached some 90 million tons per annum) elevated the riverbed causing environmental damage (flooding, forest die back and damaged community gardens). The problem was accentuated when this sediment flow was blocked at the junction between the Strickland and Fly Rivers causing an upstream build-up.

In late 1998, the German participants exited the project and their shareholding in OTML was acquired by Inmet Mining Corporation, a Canadian company.

In 1999, when the PNG economy was in a precarious state (22% inflation, 28% interest rates, and dwindling foreign exchange reserves), BHP informed the PNG Government that it wanted to close the mine<sup>4</sup> because of this environmental damage. At that time, the mine was by far the largest source of government revenues and accounted for 30% of GDP.

The PNG Government had to weigh the environmental cost against the economic and social benefits of keeping the mine open. The then Prime Minister, Sir Mekere Morauta<sup>5</sup>, was aware of how the sudden closure of the Bougainville Copper mine in the late 1980s caused a catastrophic decline in government services and so, after obtaining independent advice on the environmental, economic, social and legal issues, his government decided the mine should remain open.

---

<sup>4</sup> OTML shareholding at that time was 52% BHP Billiton, 20% the State, 18% Inmet, and 10% Minerals Resources (Ok Tedi) Limited (which held shares on behalf of landowners).

<sup>5</sup> He was noted for pursuing an ambitious reform agenda during his 1999 to 2002 term as PM. He continued as a Member of Parliament until June 2012 when he announced his retirement. A new parliament was elected, and Peter O'Neill sworn in as PM on August 4th. Sir Mekere was re-elected to parliament in 2017.

BHP and the PNG Government then entered negotiations (facilitated by N M Rothschilds & Sons, the London merchant bank) to work out arrangements for continued mine operations with appropriate environmental safeguards, informed local communities' consent and BHP's exit as an OTML shareholder and mine-manager.

An in-principle agreement was reached in late June 2001 and recorded in a Heads of Agreement, whereby compensation was to be paid to people affected by the mine's environmental impact, efforts would be taken to limit ongoing environmental damage, the mine would continue to operate independently of government and BHP would gift its 52% shareholding in OTML to an efficient, transparent and accountable vehicle, which would use the dividends to promote social and economic developments to benefit the people of the Western Province and of Papua New Guinea generally.

Further negotiations then worked out the details for establishing that vehicle and the reorganising OTML. BHP and the State were both to be indemnified against environmental claims arising before the effective date. These complex arrangements were incorporated into a suite of documents, including a Ninth Supplemental Agreement to the original Ok Tedi Agreement, changes to the management agreement, new financing arrangements, as well as deeds of indemnity and agreements with the local communities. These were all covered by a Master Agreement and an Act to give effect to the Ninth Supplemental Agreement. A compilation of all these documents can be found in the two-volume "Transaction Bible".

The parties were aware of corruption risks whereby the State, under control of some future government, might interfere with management to gain control of the company assets and divert them for some unintended purpose. It was therefore resolved to form an independent "company limited by guarantee" (so no one had any ownership interests) to be incorporated in Singapore, which had a respected legal system that could provide a measure of protection.

The new vehicle (which was incorporated in October 2001) became PNG Sustainable Development Program Ltd (SDP). The Mining Ok Tedi Mine Continuation (Ninth Supplemental Agreement) Act 2001 was passed by the PNG Parliament in December 2001 to formalise the following obligations:

- SDP to spend a third of its dividend income on current projects<sup>6</sup> and invest the remaining two-thirds in a Long-Term-Fund (LTF) to be drawn down after mine closure,
- Community Mine Continuation Agreements (CMCAs) to give people affected by the mine the final say on whether the mine can continue to operate and the appropriate level of compensation,
- Ok Tedi Development Foundation (OTDF) to manage community development initiatives funded by OTML,
- Mine life extension, mine closure and environmental regime plans to be reviewed periodically.

SDP's governance structure was specified in its Memorandum & Articles of Association (M&A) and the Program Rules. It was designed to promote transparency and accountability through

---

<sup>6</sup> A third of the spend on current projects in Western Province and two-thirds on "national" projects. Funds for these initiatives were held in the Development Fund (separate from the LTF)

a seven-person Board<sup>7</sup>; Members appointed to provide another level of governance oversight; and an Advisory Council to provide input to program deliberations.

SDP's financial accounts were to be audited; annual review meetings were to be held to explain the agenda to stakeholders; independent reviews were to be conducted every three years; and key reports were to be published on the company website.

## The Start-up Years:

Directors were appointed, the company was registered in PNG, a CEO and small management team were recruited, a Port Moresby office opened, auditors appointed, bank accounts opened, insurance policies secured and an investment adviser/fund manager was found.

Ross Garnaut was appointed Chairman of both the SDP and OTML boards; various sub committees were established (audit, investment, programs); and the Program Rules slightly modified so the board could define "low risk investments" for the Long-Term-Fund (LTF).

SDP announced it would "devote attention to informing, building confidence and gaining trust of our stakeholders"....and "establishing and building a network of partnerships". A seven-person Advisory Council was formed to facilitate this.

It was determined that "SDP can make its most valuable contribution by supporting sustainable income generating activities in Western Province" and that it would deploy the nucleus estate business model to facilitate this. Initial discussions canvassed agribusiness, forestry, economic infrastructure and micro-finance possibilities.

Towards the end of 2003, the following ideas were beginning to take shape:....support for the rubber industry; rehabilitating the Highlands Highway; a micro finance bank; and small-scale community health and education programs.

By the end of 2005, SDP had committed US\$ 37 million and disbursed \$7 million to support 20 initiatives. It had also established two subsidiaries (PNG MicroFinance and PNG Sustainable Energy) and commissioned studies looking into oil palm, eco-tourism and technical training possibilities. A shipping proposal to link Port Moresby, Daru, Merauke and Singapore was also under consideration.

As the major shareholder in OTML, SDP supported engineering studies for extending the mine life beyond 2013 and a US\$ 150 million allocation to reduce environmental damage.

SDP also articulated a clearer strategy for addressing some of the challenges faced by the sparsely populated Western Province:

- "A central element of SDP's strategy is to assist income generating activities on a scale that can support essential social and economic infrastructure after mine closure".
- "It would be a failure of foresight if the roads, urban infrastructure, ports, civil aviation and electricity facilities established by OTML were to disappear after mine closure".

---

<sup>7</sup> Three "A" directors were appointed by BHP but mandated to act independently. PNG entities appointed three "B" directors (Bank of PNG, the Auditor General later switched to the Treasurer, and the PNG Chamber of Commerce). These six then appointed a seventh Singapore director.

- Additional transport and communications infrastructure and services are needed to maintain basic services. SDP will work with commercial entities with the management and technical skills to deliver these outcomes.
- Health and education initiatives will be confined to supporting community and church organisations with (relatively small) grants.

By 2006, the LTF balance had reached the level originally expected by mine closure, prompting a more ambitious agenda. Feasibility studies were initiated to assess a deep-water Daru port; a large-scale industrial estate at Oriomo (to support natural gas and hydro-power developments); and an infrastructure corridor joining Kiunga, Nomad, South Fly and Daru (road transport, gas pipeline, power transmission, telecommunications).

The intention was to facilitate new economic activities (agriculture, sustainable forestry, timber processing, aquaculture, tourism and gas-based minerals processing in partnership with international development agencies (e.g. World Bank).

Boston Consulting Group (BCG) was commissioned to undertake an organisation review to strengthen management so it could handle this higher level of development expenditure. That report noted that SDP was tackling some of the most difficult challenges in a region under extreme pressure and expectations. It called for:

- More realistic targets (scope of works and delivery timetables) for tackling large programs with long lead-times and significant staff requirements.
- Stronger organisation capabilities (business start-up and management skills to design and fund programs and establish partnerships, joint venture and subsidiaries as delivery agents)
- A more 'results-oriented' culture committed to "delivering outcomes as distinct from feasibility studies and board approvals" (focus efforts on the right things and simplify processes).

Start-up Years  
(US\$ millions)

	2002	2003	2004	2005	2006
Net Dividend Income	7	66	64	156	312
Project Spend	-	0.3	1.8	4.5	16.0
LTF Balance	3.6	42.1	79.4	175.5	376.6
Staff Numbers <sup>8</sup>	7	11	13	19	20

## Next Phase:

The first independent review published in 2007 noted "remarkable progress in setting up the organisation and launching its developments efforts" but reinforced BCG's call to strengthen the organisation's capacity to meet the increasingly complex program agenda.

---

<sup>8</sup> Excludes subsidiary company employees.

"Pushing large amounts of funding out the door before procedures and personnel were in place probably led to considerable waste.....although some observers are impatient to see more rapid implementation of the developments".

Developing large-scale infrastructure, agribusiness and forestry projects required collaborations with government that were hampered by political and institutional barriers. Social sector (health and education) programs, on the other hand, have the advantage of "meeting immediate, highly visible needs without long gestation periods".

Efforts to improve village level services included the expansion of the microfinance's branch network<sup>9</sup> and supplying power to village households and small towns<sup>10</sup>.

In 2008, SDP reported that "over the next several years, it will focus on initiatives in preparation for mine closure":

- Position Tabubil to sustain its infrastructure and services and establish Star Mountains Institute of Technology (SMIT) to leverage OTML's technical training centre and coordinate other education activities.
- Develop the infrastructure corridor to facilitate new economic developments.
- Facilitate a major OTML investment to extract environmentally damaging sulphur materials from the mine tailings and pipe them 130 km to the Bige reclamation area.
- Negotiate Inmet's departure (began in 2009 and finalised in 2011) to pave the way for a mine life extension.

SDP subsequently initiated and made substantial investments in mine life extension and explorations in and around the OTML mine lease area.

A June 2009 management meeting noted "a tendency to take on too much and deliver too little" (the agenda at that time included 31 mini grids and 150 home solar systems; a Barramundi hatchery; rubber and eaglewood agribusiness projects; microfinance; road rehabilitation projects; water transport along the Fly River; and numerous community projects). It was decided to avoid projects deemed a government responsibility and reject projects not budgeted as part of the strategic plan.

The 2009 Annual Report noted "strong support of the National Government for transformative projects" and progress with the telecommunication tower network and Daru's port, airport, water supply and sewage facilities.

SDP had formed eight (8) subsidiaries to facilitate these initiatives (PNG Energy Development, a JV with Origin Energy to pursue large scale renewable energy projects); Cloudy Bay (to pursue large scale sustainable forestry projects); PNG Sustainable Infrastructure; Western Province Sustainable Power; Daru Port Development; SMIT (education initiatives in Tabubil); PNG Microfinance; and Champion 34 (shares in the National Analytical & Testing Service).

The second independent review (2011) noted "one should expect failures as well as successes playing such a wide-ranging catalytic role" and again pointed to the risk of spreading management and oversight capabilities too thinly by taking on an increasingly wide range of

---

<sup>9</sup> PNG Microfinance (co-owned by BSP and IFC) had 7 branches in Western Province (Daru, Balimo, Kiunga, Tabubil, Lake Murray, Obo and Morehead)

<sup>10</sup> PNG Sustainable Energy Ltd was co- owned by Snowy Mountain Engineering Corp.

activities. It observed "issues tended to drag on, problems take too long to resolve, execution and oversight problems remain" and recommended rationalising the agenda.

This review argued that while forming successful partnerships with businesses was the right approach, "experience shows it is not easy to achieve, and some joint ventures have been less successful than envisaged".<sup>11</sup>

- BSP pulled out of the PNG Microfinance joint venture formed in 2005.
- The Daru port deliberations started in 2006; feasibility studies were commissioned in 2008; the project stalled after its joint venture partner pulled out during the Global Financial Crisis; more technical surveys were then commissioned; and a replacement partner found in 2012.
- The Daru hatchery project launched in 2005 was delayed for several years before being commissioned in 2010 and stalled again in 2011 owing to technical problems.
- SDP purchased an 80% shareholding in Cloudy Bay in 2007, but the company remained unprofitable despite replacing its management and investing in new facilities.
- PNG Sustainable Energy stalled with SMEC's withdrawal from the joint venture (later replaced by PNG Energy Development, a 50:50 joint venture with Origin Energy).

By that time, "divergent views" had emerged on whether SDP "should focus on basic services for ordinary people or mega projects to transform the economy if successful". This choice was complicated by government capacity.... "Successive provincial governments tended to misuse their revenues and waste funds on non-essential areas.... many schools and aid posts have been closed"<sup>12</sup>.... "capacity is low and corruption is a serious problem".... "SDP's relations with the Provincial Government have been problematic"<sup>13</sup>.

This review argued that "high risk" does not mean projects should be avoided, but they do need close scrutiny and careful management and "SDP needs to demonstrate results". It also noted SDP's governance arrangements had stood the test of time and "independence from government, though sometimes a source of tension, is widely recognised as a strength".<sup>14</sup>

Shortly after the 2012 elections, Ross Garnaut resigned as director and chairman of SDP and was replaced by Sir Mekere Morauta. In October, BHP informed SDP that it wanted to relinquish its responsibility for appointing "A" directors. After unsuccessful approaches to other agencies (World Bank and Transparency International) to see if they would step in, it was determined that "A" directors should appoint their successors. The Memorandum & Articles (M&A) were altered accordingly (30th October 2012)<sup>15</sup>.

---

<sup>11</sup> By 2011, feasibility studies were looking into the 250MW Purari Hydro (~\$10 billion project), Daru Port (\$394 million project), Oriomo Industrial Estate, and gas developments with Horizon Oil and Talisman Energy. The Tabubil Futures and SMIT initiatives ran into passive resistance by OTML's then CEO. \$40 million had been spent on port preparation costs and \$45 million on Purari feasibility studies.

<sup>12</sup> Blasins Iwik August 14, 2009 (note to the Advisory Council)

<sup>13</sup> 2011 Independent Review (the 2011 Annual Report noted feasibility studies were then looking into Purari hydro, Stanley Gas, Daru Port, Oriomo Industrial Estate, and gas commercialisation based on MOU's with Horizon Oil and Talisman Energy)

<sup>14</sup> It recommended reconstituting the Advisory Council; greater Western Province representation on the board; and the delegation of BHP's board nomination role (its powers to appoint "A" directors ceased October 2012).

<sup>15</sup> The M&A changes also introduced a "fit and proper person" test for "A" directors and added the Provincial Administrator as an ex officio board member.

By year-end, SDP had received US\$ 1.8 billion in cumulative after-tax dividends, spent almost \$ 475 million on 662 projects (180 still active) and \$66 million on administrative overheads. SDP continued to assess its corporate structure, systems and processes "to make us less bureaucratic and more responsive to development needs".

Soon after his appointment as Chairman, Sir Mekere noted that "SDP has grown beyond my expectations into a very important development partner".<sup>16</sup>

Subsequent Years  
(US\$ millions)

	2007	2008	2009	2010	2011	2012
Net Dividend Income	260	182	182	338	222	222
Project Spend	21.7	55.8	64.0	46.1	135.9	127.7
LTF Balance	594.2	677.8	817.9	1,044.8	1,201.5	1,351.8
Staff Numbers	49	64	59	72	76	82

## Expropriation and Shutdown:

In August 2011, Peter O'Neill took over from Sir Michael Somare as Prime Minister (PM) and was sworn in again after the 2012 mid-year elections. Sir Mekere retired from politics.

"While there was recurring tension between SDP and the PNG government over the previous decade, Sir Mekere kept SDP safe while he was in parliament". On taking office, PM O'Neill started pressing for BHP to step back and for the State to take control of SDP's assets.<sup>17</sup>

At SDP's October 2012 board meeting, director Jacob Weiss (a BPNG nominee) informed Sir Mekere that "Peter O'Neill had asked him to lead a state's team to negotiate BHP's exit and SDP's restructuring".<sup>18</sup> The PM then applied pressure tactics to bring about these changes:

- Wrote to SDP (November) to say his recommended appointment of Norman May to the board should be "a new addition not a replacement of the incumbent government nominee... if the appointment is not in place by November 20, he will take appropriate action including legislative amendments to realign SDP's management protocols".<sup>19</sup>
- Imposed a travel ban on Ross Garnaut (recently retired Chairman of SDP and incumbent Chairman of OTML) preventing him from entering PNG until BHP agreed to changes so control of the mine is "given back to the PNG people".

<sup>16</sup> Sir Mekere quoted in Rowan Callick's article in *The Australian* (2 November 2012). His letter to the PM (March 23rd 2013) stated "SDP has worked with the State to deliver better environmental standards; invest in future mining developments; and undertake a range of development projects.

<sup>17</sup> Stephen Howes <http://devpolicy.org/ok-tedi-sdp-20130924/>

<sup>18</sup> Jacob Weiss 2014 affidavit (he was asked to resign due to conflict of interest issues; initially refused to do so; but eventually resigned on 20th March 2013).

<sup>19</sup> Allegations of corruption were raised in relation to his supposed fraudulent land deals on Daru (he was acquitted) but he was subsequently arrested and charged with misappropriation of public funds in 2015.

- Informed SDP (March 2013) that the State would commence negotiations to purchase its OTML shares and that mine life extension (MLE) will only be approved if SDP agrees to sell its shares.<sup>20</sup>

In April, Sir Mekere met with the PM to present a 'circuit breaker' proposal whereby SDP would gift its shares to a special purpose, government-controlled trust which would spend its dividend income on infrastructure assets. SDP would remain independent and would be paid compensation<sup>21</sup>.

The State's negotiating team met with BHP in May to discuss plans to restructure SDP into a trust with largely government appointed trustees (the required changes to the Program Rules necessitating the consent of both BHP and the State). SDP was unwilling to have its independence compromised and BHP rebuffed this approach.

The PM announced publicly that "by the 1st of January 2014, if the mine life is extended, OTML will be managed under a new structure". Jacob Weiss explained this plan to Sir Mekere without referencing the 'circuit breaker' proposal.

It became increasingly clear that the PM was pursuing control over annual cash flows from the mine as well SDP's US \$1.3 billion LTF, raising concerns that these funds would be used for political patronage rather than development initiatives.<sup>22</sup>

In June 2013, the PM informed Sir Mekere that SDP was no longer a shareholder in OTML and the LTF should be transferred to a common pool managed by a trust. The Ok Tedi Tenth Supplemental Agreement Act was passed in September to cancel SDP's shares in OTML, issue new shares to the State, give the PM discretion to decide if any compensation should be paid and purportedly give the State power to restructure SDP. At the same time, by an amendment to the Ok Tedi Ninth Supplemental Agreement Act, the indemnity in favour of BHP was revoked.

The State then froze SDP's bank accounts, passed a Cabinet (NEC) decision to replace its Board and MD with a transitional management team, threatened to arrest its officers, prevented SDP from transferring funds out of the country (cancelled its tax clearance certificate), pressured contractors to stop serving SDP and deported SDP's media and communications director.<sup>23</sup>

In October, SDP responded by filing a request for arbitration with the International Centre for Settlement of Investment Disputes (ICSID) to reinstate its shares and launched legal

---

<sup>20</sup> An application was lodged late 2012 to continue operations from 2013 to 2025. Provisional government approval had been granted in 2009 and the CMCA communities had given their unanimous approval.

<sup>21</sup> In a follow-up May 13th letter, Sir Mekere informed the PM that his proposal was designed to avoid destructive public conflict, perceptions of expropriation and consequent damage to investor confidence. It provided a solution which reflected the government's inability to pay market value for the shares and compensate SDP for its expenditure on mine life extension and unpaid dividends.

<sup>22</sup> 2013 Annual Report

<sup>23</sup> SDP saw OTML's failure to declare a dividend in 2013 and declare dividend of \$150 million in 2014 as a government motivated attempt to starve it of funds. The State argued it was a commercial decision due to a drop in profits (from \$472 million in 2012 to \$17 million in 2013) due to a drop in metal prices, a processing plant failure, and pit flooding.

proceedings in Singapore to block the State's restructuring efforts.<sup>24</sup> It also wrote to the PM saying the purported removal of directors and appointment of the transitional management team were inconsistent with the M&A and Program Rules and therefore unlawful so the board will continue to manage SDP.

The 2013 Annual Report noted "what began as a year full of hope, ended in confusion, disputation and the forced closure of all projects and programs". The diversion of SDP's dividend stream to the State meant its US \$ 136 million commitment to projects that year was shelved (the State ignored a request to fund completion of the work-in-progress).

Most staff were made redundant<sup>25</sup> and the subsidiaries were put on a care-and-maintenance basis pending shutdown or exit<sup>26</sup>. Attempts at an orderly transition by gifting some projects to keep them alive had mixed outcomes.

SDP's attempts to monetise its LTF investments in PNG and transfer the proceeds offshore ("any assets held in PNG would be at risk of being wrongfully frozen or seized") triggered major impairment losses (US \$51 million) recorded in the accounts.

There was some attempt to resolve matters. An Eminent Persons Group<sup>27</sup> was appointed in October to mediate a settlement, but a draft HOA initialled by Sir Rabbie Namaliu and Sir Mekere failed to gain traction (it proposed SDP continue managing the LTF as a project financier which appoints delivery agents). The EPG's final report was delivered in February 2016, shortly before the October trial date<sup>28</sup>.

In March 2015 (shortly after an adverse ICSID ruling), the Attorney General (Ano Pala) approached Sir Mekere to say the State wanted to engage in a settlement process. Another draft HOA (similar to the earlier version) was tabled but there was no resolution and the public attacks on SDP continued, along the lines of:

- BHP retains a degree of ultimate control over SDP that is inappropriate. The behind-the-scenes influence of BHP and its representatives has gone on for too long.<sup>29</sup>
- Setting up the LTF in Singapore was a vote of no confidence in PNG and a reflection of colonial era mentality.<sup>30</sup>
- The State does not need a watchdog or chaperon to ensure resources are used for their intended purpose...the selection of projects funded by SDP should be left to those who benefit from them.<sup>31</sup>

---

<sup>24</sup> *The claim sought to have the purported removal of directors declared illegal and restrain the State and its transition management team from giving instructions in relation to SDP assets and management.*

<sup>25</sup> *84 out of 91 direct employees; all 102 Western Power staff; and all 9 SMIT staff.*

<sup>26</sup> *By 2014, PNG Microfinance was the only active subsidiary (Harbourside and Champion 24 were vehicles for passive LTF investments).*

<sup>27</sup> *Sir Rabbie Namailu, Bart Philemon, and Sir Puka Temu*

<sup>28</sup> *In 2015, the EPG noted that Sir Mekere's 2013 proposal to "gift" the shares to the State for the benefit of the people, offered a far superior outcomes for all parties and that SDP is willing to revisit that proposal.*

<sup>29</sup> *Quote from "PNG Mine Watch" September 17, 2013.*

<sup>30</sup> *"History of Ok Tedi: Separating Fact from Fiction" by Peter O'Neil.*

<sup>31</sup> *Jacob Zurenuoc's (State negotiating team) reply to BHP's stance that it is committed to ensuring SDP remains an independent, well governed, and effective organisation.*

- SDP and its directors have misused the LTF and so the government will restructure SDP and OTML.

In response to these pressures, a small office was opened in Australia to handle the IT, accounting and funds management operations beyond the reach of the PNG government.

### Defensive Litigation:

The ICSID dismissed the State's attempt to strike out SDP's claim in October 2014 and granted provisional measures stopping it from restructuring SDP and transferring or issuing any OTML shares to third parties. However, ICSID eventually determined it did not have jurisdiction to resolve this dispute (January 2015).

SDP's legal proceedings in the Singapore courts to protect its independence prompted the State to apply for an injunction (2nd April 2014) restraining SDP from dealing with its assets and subsidiaries. In August it alleged that SDP had dissipated its assets and sought the removal of Sir Mekere as Chair and the appointment of a receiver.

The Singapore court issued an interim restraining order in August preventing further changes to the M&A, board composition and removal of assets from the LTF, but dismissed the application for an injunction against SDP dealing with all its assets. SDP was ordered to furnish the State with quarterly management accounts, balance sheets and fund manager reports.<sup>32</sup>

These developments effectively reversed SDP's position in the litigation process.

- SDP started taking the initiative to block the State from restructuring the company and taking control of its assets, arguing "government systems and control mechanisms have been corroded and there are widespread fears of rampant corruption in the present government". Taskforce Sweep had concluded that almost half of PNG's US\$ 2.75 billion development fund had been lost through corruption, misappropriation, and mismanagement but the PM shut this investigation down after it alleged he had expropriated public funds by authorising illegal payments to a law firm.<sup>33</sup>
- SDP then became a defendant when it sought to ward off claims that it had changed its M&A without the State's consent in order to dilute the State's oversight; transferred funds from the Development Fund (DF) to the Long Term Fund (LTF) in breach of the Program Rules<sup>34</sup>; ceased its development programs on the pretext it could no longer fund them (despite holding US \$158 million in the DF at the end of 2012); and refused to provide an account of its assets in response to the State's March 2014 request.

The State argued an unwritten overarching agreement was reached in December 2001 whereby SDP members, directors, and staff were accountable to both BHP and the State; the right to appoint members and directors was divided equally between the State and BHP; both

---

<sup>32</sup> *Whether the State had a right to inspect all SDP records became a fiercely contested issue*

<sup>33</sup> *Sir Mekere Morauta's eighth affidavit (10 August 2016) also noted that the commission of inquiry which investigated defrauding the National Provident Fund (when Bill Skate was PM and Peter O'Neil his chief advisor) mentioned Peter O'Neil in 5 pages of their report. The Corruption Perception Index published by Transparency International in 2013, ranked PNG 114 out of 175 countries.*

<sup>34</sup> *SDP countered this claim by arguing that it had been acting on the recommendation of the second independent review; BHP wanted the change; and that it had no implications for the State's role.*

the State and BHP can access SDP's accounts and other records; and that SDP was a charitable trust so the State had further oversight rights as the beneficiaries' representative.

April 2016, SDP changed lawyers from Clifford Chance to Dentons Rodyk. The two-volume "Transaction Bible" containing all the agreements, indemnities and other documents negotiated during BHP's exit from OTML<sup>35</sup> was then uncovered to provide clear evidence that the parties' intent was written in legally binding documents and that SDP was to be independent of BHP and the State.

Legal proceedings dragged on, largely due to intransigence on the part of the State. The day before the trial was due to start in October 2015, the State's legal team lodged an application seeking to change its pleadings (the argument on which their case was based). The judge rejected this application. The State then took it to the Court of Appeal where it was again rejected. A new trial was scheduled in 2018.

In parallel with these Singapore proceedings, SDP initiated unsuccessful proceedings in PNG, firstly to enforce payment of OTML dividends due in 2012 and 2013 and then to declare the Ok Tedi Tenth Supplemental Agreement Act unconstitutional<sup>36</sup> because there was no intention to pay fair compensation for the compulsorily acquired shares.

The Singapore Supreme Court finally ruled in favour of SDP in early 2019. "The PNG government lost its protracted battle to wrest control over SDP".<sup>37</sup> This judgement noted the State failed to prove it had a deal with BHP for joint control over SDP's assets or that SDP was a charitable trust that allowed the State to intervene "so the pleaded breaches of the agreement and the trust fail".

The whole case was seen as "an expensive exercise in futility" and all four Western Province Members called on the government to let SDP get on with its programs<sup>38</sup>. However, the PM vowed to continue the legal fight, reiterating his concerns in newspaper advertisements that "current directors of SDP are continuing to run SDP in a highly unsatisfactory manner".

James Marape overthrew Peter O'Neill as PM in May 2019. In October, three SDP directors met with the new PM and several of his Ministerial colleagues in Brisbane to argue the appeal process in Singapore was a costly distraction for both parties; that too much money had already been dissipated on legal fees; and SDP now wanted to focus its energies on development initiatives in Western Province.

The new PM said he was favourably disposed to shutting down the appeal and indicated he would discuss the matter with his Cabinet. However, no action was taken, and the State's case before the Court of Appeal eventually failed on 30 April 2020.

The judge accepted the argument that SDP was established as an independent entity free from State control, noting "the parties' recorded agreements bear all the hallmarks of a finely calibrated arrangement, the product of extensive care and deliberation" and dismissed the claim that those arrangements conferred oversight and control rights over SDP.

---

<sup>35</sup> *When interviewing Ross Garnaut (former chair of the SDP board)*

<sup>36</sup> *The PNG court rejected the argument that Sir Mekere had standing to make this application.*

<sup>37</sup> The Straits Times report (April 5)

<sup>38</sup> *"A Billion Reasons: the Future of PNG Sustainable Development Fund" by Shane McLeod (April 2019) published by The Lowy Institute*

This prolonged dispute prompted a change in SDP's governance arrangements whereby previously designated PNG authorities (Bank of PNG; Treasurer; Chamber of Commerce) can no longer appoint SDP directors.

## Funds Management:

During its first decade, SDP paid little proper attention to its LTF investment strategy (the buoyant OTML dividend stream possibly meant this was not a priority). By 2013, the investment portfolio comprised a mix of offshore securities managed by professional fund managers and some directly managed PNG investments.

The loss of OTML dividend income prompted a careful review of the LTF investment strategy in 2015. Its offshore portfolio generated low returns that year (1.3 % compared to 11.7% average US college endowments and 8.7% average Australian super funds). The portfolio had also become high-risk due to a lack of diversification (86% fixed interest bonds; 14% listed shares).

The over-exposure to bonds was problematic because quantitative easing had caused interest rates to fall (when they inevitably rise, bond asset values fall). These risks were compounded because SDP had given its nine fund managers identical mandates (risking duplicated investments further eroding the lack of diversification).

The review process involved interviews with sovereign wealth fund advisors and several university endowments (Yale, Princeton and Harvard). Based on those insights, SDP decided to adopt the "endowment model" as its new investment strategy.

This led to a significant change in asset allocations from fixed interest securities towards equities and "alternatives" (private equity, hedge funds, property, and infrastructure) to create a broadly diversified portfolio with low correlated returns across different asset classes. The intention was to boost returns and ameliorate the risks.

The new strategy also matched SDP's long-time horizon so there was no need to make investment decisions in response to short-term financial market volatility (attempts to "time the market").

Steps were also taken to professionalise management of the new strategy. Incumbent fund managers were rationalised; the Investment Committee was revamped and became more involved; the reporting system was recast to make it more useful; and Cambridge Associates<sup>39</sup> was appointed as an investment adviser.

Over an eight-year transition, the LTF diversified its asset allocation (14% fixed interest; 35% listed shares; 25% private equities; 17% diversifiers; and 9% real estate assets). Returns gradually increased from 1.3% to 11.4% pa. and funds under management (LTF and unspent balance in the Development Fund) reached US \$1.7 billion<sup>40</sup> (after funding \$ 234 million on development projects).

---

<sup>39</sup> Cambridge Associates advises a range of blue-chip clients, including: university endowments, foundations (e.g. Gates, Rockefeller), non-profit institutions (e.g. museums, medical institutions), private clients (wealthy families) and commercial clients (corporations, pension funds, insurance companies, sovereign wealth funds)

<sup>40</sup> Had the new strategy been adopted from the outset, by 2023 SDP's funds under management would have reached \$3.7 billion.

## Funds Under Management

(US \$ millions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Year-end Balance	1,318	1,354	1,447	1,370	1,521	1,668	1,810	1,160	1,761
Program Outlays	0	0	25	32	30	28	42	35	42

Projections suggest the funds under management could reach US \$2.1 billion by 2030, sufficient to sustain US \$100 million annual outlays on SDP's development programs.

The previous move towards directly managed PNG investments posed another problem. These investments were generally unsuccessful due in part to the risks (both commercial and expropriation). This prompted efforts to cash-out of these investments and transfer the proceeds overseas<sup>41</sup>.

By 2015, the remaining "stranded assets" were worth around US \$170 million<sup>42</sup> (\$39.1 million in dual listed shares<sup>43</sup>; \$22 million in two aircraft leased to Air Niugini; \$43 million investment in the Harbourside property JV; \$7 million owing from the Cloudy Bay sale; \$6.5 million in 9 Mile Vegetable Farm loan; \$0.8 million stake in BMobile; \$8 million cash holdings; and 24 million shares in Frontier Resources<sup>44</sup>).

Ongoing exit efforts were slow and difficult. Cash holdings (\$34 million by December 2017) were deemed an easy expropriation target and therefore re-invested in illiquid property assets (Daru housing and Harbourside JV)<sup>45</sup>.

### Program Relaunch:

In July 2015, well before the litigation had been settled, SDP began preliminary discussions over the possibility of relaunching its development initiatives (prompted in part by the continued deterioration of government services owing to poor administration and funding cuts).

This prompted efforts to clarify an agenda (initiatives, priorities, timings, approach) without getting bogged down in prolonged planning deliberations. The idea was to strike a sensible balance between:

- "Developing an overall plan so we can allocate resources and communicate effectively"
- "Getting some quick 'runs on the board' by being entrepreneurial (picking a few projects and making them happen"

<sup>41</sup> Government actions prevented cash transfers to offshore accounts.

<sup>42</sup> Excluding shares in PNG Microfinance (still unprofitable) and the Purari Project intellectual property.

<sup>43</sup> \$18.5 million in Bank of South Pacific, \$15.7 million shares in Oil Search Ltd, \$4.4 million in Highlands Pacific Ltd, \$300,000 in Steamships Trading Company and \$200,000 in Newcrest Mining

<sup>44</sup> They were transferred into the LTF and subsequently written off, prompting legal arguments that this was contrary to the Program Rules.

<sup>45</sup> Following advice from Cambridge Associates. Much later, the LTF made limited investments in some SDP agribusiness projects (deemed commercially viable by Cambridge Associates).

- "Developing a clear and consistent message for managing stakeholder relations (keep them informed, build support, avoid unrealistic expectations)"

By April 2016, things were beginning to gain traction with an in-principle commitment to a US \$24 million two-year start-up spending program. SDP then visited 18 offshore endowments, impact investors and private equity firms to learn from their experiences as input to these strategy deliberations.

That feedback emphasised the need for a focussed spending agenda, defining initiatives internally rather than simply responding to beneficiary requests<sup>46</sup>, using appropriate screening filters<sup>47</sup> and matching planning horizons to problem horizons for real impact.

By year end, SDP had specified the following guidelines for its new spending program:

- Focus on four areas (health, education, livelihoods and enabling infrastructure) and develop hubs to build scale and capture synergies across programs<sup>48</sup>.
- Restrict spending to projects in Western Province.
- Start with some quick wins to deliver visible results and build credibility before tackling more difficult challenges.<sup>49</sup>
- Outsource the implementation to experienced partners leaving SDP to concentrate on being a "catalyst" (leverage its local knowledge to generate project ideas; help shape, plan, and structure each initiative; select partners and co-investors; provide funding).
- Provide implementation oversight to drive efficiency and effectiveness (planning, funding drawdowns<sup>50</sup>, execution and monitoring).
- Be "action-oriented" with a focus on outcomes rather than process. Adopt a "do-learn-do" mantra (proof-of-concept trials rather than lengthy studies).
- Take long-term view with 10-to-20-year commitments to make a lasting impact.

By year-end end 2017, eight projects had been launched:

- Two enabling infrastructure projects (a \$32.5 million telecommunications upgrade<sup>51</sup> and a program to reopen rural airstrips to provide access to remote rural communities<sup>52</sup>).
- Two livelihood projects (reopen the Daru fish hatchery and restructure the established rubber industry).

---

<sup>46</sup> Andrew Mellon Foundation argued this "saved a lot of energy but had to be balanced against the need for serious consultations.... which can be tricky".

<sup>47</sup> Moore Foundation used "is it important i.e. how much does it matter? what impact can they have? are they the best organisation to tackle a particular challenge? can they measure the results? what synergies can they leverage across their portfolio of initiatives?"

<sup>48</sup> A departure from having lots of small projects on the agenda and some complicated "mega projects".

<sup>49</sup> Greenfield start-ups typically entail lengthy planning deliberations and difficult regulatory and licensing approvals.

<sup>50</sup> The Eminent Persons Group recommendation SDP spending be channelled through another entity.

<sup>51</sup> Repair or replace existing towers; build 14 new towers to improve the geographic coverage; introduce a two-ring configuration to improve reliability; update the technology from 2G to 4G so it can facilitate e-learning, tele-health, and mobile financial services; and maintain the network until 2014.

<sup>52</sup> Only 12 of the 52 targeted airstrips were operational due to a lack of maintenance and remediation.

- Four social service funding sponsorships (Marie Stopes family planning; World Vision clean water and sanitation; Rotarians Against Malaria; and Kokoda Track Foundation student scholarships).

Two other community support initiatives had budget approvals for a 2018 launch.

- Cover the cost of school fees for all students enrolled in the province.
- Provide matched co-funding for mutually approved projects sponsored by the four Western Province parliamentarians to leverage their DSIP and PSG funds.

A series of "promising ideas" had also been surfaced in preparation for the detailed planning efforts needed to flesh them out into practical proposals.

- Work with Kokoda Track Foundation (KTF) to establish a teacher and nurse training college to address the struggling health and education systems<sup>53</sup>
- Work with Mission Aviation Fellowship (MAF) to develop a proposed flying doctor service facilitated by the rural airstrip program.
- Leverage the telecommunications upgrade to introduce modern internet technology for service delivery (e-learning, tele-health, and mobile financial services).

The program quickly gained momentum as the "promising ideas" were developed into practical initiatives along with several other agribusiness projects (cocoa and vanilla).

Steps were then taken to strengthen the management team so it could sustain the momentum (a November 2018 board meeting noted the need for investing in staff professional development; a recruiting effort to find the right people (well qualified, disciplined, young PNG nationals); integrate them into a coherent and motivated team; and align with careful succession planning.

During its July 2019 Annual Review Meeting<sup>54</sup>, SDP announced *"We think of ourselves as an impact investor, committed to using commercial disciplines to deliver initiatives efficiently and effectively by operating as a catalyst for bringing good ideas to properly planned and well managed projects. We are not a donor or arm of government"*.

*"This involves rigorous planning, putting together joint venture arrangements, and structuring the finances. While we are an independent organisation, we do not operate in isolation and have been actively engaged with the Fly River Provincial Government (FRPG and other stakeholders to align our projects with the Provincial Development Plan"*.

*"We work with experienced partners to implement our projects and actively seek co-investors to leverage our resources and introduce fresh ideas. This approach enables us to operate as a small, nimble organisation.*

*"We cannot do everything and so efforts are concentrated on delivering a few effective programs rather than spreading our resources across numerous projects. This more focussed agenda delivered mid-sized (rather than micro or mega) projects.*

---

<sup>53</sup> Roughly 40% of school age children were not enrolled and only 10% completed grade 10. 53% of community health centres were closed. These problems were compounded by dilapidated facilities, staff shortages, and poor management.

<sup>54</sup> This Annual Review Meeting was attended by some 70 stakeholders (the Program Rules stipulate it be held in Port Moresby).

The third independent review was tabled in August 2019. It noted these changes in strategic direction and pointed to a need for SDP to "address impact evaluation by devising ways of monitoring projects without creating an unproductive bureaucracy<sup>55</sup>".

It also commented on using implementation partners to deliver projects (positive results when using organisations with strong commercial disciplines; mixed outcomes when projects were managed by traditional NGOs).

### Political Challenges:

SDP's stated intention to "complement and supplement" government initiatives was complicated by tensions with the national government (expropriation and related litigation efforts) which tainted relations with the FRPG<sup>56</sup>.

In his chairman role, Sir Mekere instigated a series of meetings with the Governor and other Western Province Members to facilitate a more constructive dialogue. In May 2018, he suggested the SDP Board and the elected Members "slowly develop a sense of equal partnership, recognise the potential of joint development initiatives as well as respect the need for independent initiatives".

The Governor, Taboi Yoto, responded by saying "SDP should use normal government process and all its funds should be channelled through the government system"<sup>57</sup>.... "Western Province owns SDP and so provincial Members want to control it".

The governor repeated this stance at FRPG's April Development Forum when he challenged SDP's new initiatives; and argued "SDP's use of partners is just a conduit for money to go overseas" and claimed he has "an intelligence network to spy on SDP".

The following year, during the October 2019 meeting when the new Prime Minister, Jame Marape, indicated he was in favour of the State dropping its appeal before the Singapore court<sup>58</sup>, the Governor repeated his stance that the government should have oversight of SDP and control how the money is spent and suggested changing the Program Rules in exchange for dropping the litigation.

SDP maintained its collaborative efforts despite these political currents. As soon as the Singapore court lifted its injunction, the Provincial Administrator was appointed to the SDP board, and the new spending program was kept closely aligned with the FRPG's 5-Year Plan. The response from elected Members was mixed (Roy Biyama from Middle Fly actively embraced collaborative efforts<sup>59</sup> and James Donald from North Fly became a vocal supporter).

SDP formed the view that the best way to build community (and political) support was to maintain a low profile and deliver meaningful results as fast as possible. "We also need to

---

<sup>55</sup> They acknowledged the difficulty of developing sensible metrics for evaluating projects with a long-time horizon.

<sup>56</sup> Fly River Provincial Government (Western Province)

<sup>57</sup> Despite the acknowledged poor delivery of government services (FRPG 5-Year Plan)

<sup>58</sup> Outlined on page 11.

<sup>59</sup> He provided temporary housing, land and unoccupied buildings for SDP to launch the Balimo Hub (thereby accelerating the deliverables and dramatically reducing the costs).

explain the agenda, keep people informed, counter misinformation, listen to stakeholders and explain the constraints."

Rather than high-profile press statements and speeches at large public gatherings, efforts were focussed on low key face-to-face conversations and community level consultations<sup>60</sup>. During 2019, SDP participated in 6 formal consultation sessions; had 2 meetings with the Prime Minister; visited numerous communities; arranged several television and radio interviews; and featured in 12 published newspaper articles (stories about SDP activities quoting third party observers).

Support for SDP improved from a 2020 low point when it was subject to an orchestrated public attack during a large public meeting on Daru hosted by the Governor.

In March 2022, SDP attended a 2-day consultation session with ~40 community leaders (hosted by OTML). SDP's presentation elicited positive comments from the floor (e.g. "we are glad SDP is back") and several leaders quietly asked, "is there anything we can do to help SDP's legal case against the Bagari faction". Only one person went on the attack, and he was shouted down by the audience.

In November the following year, another stakeholder meeting hosted by OTML attracted ~130 attendees. This time SDP's presentation was followed by several rounds of applause; SDP's efforts were acknowledged by other service providers; and someone commented "I used to hate SDP but now I love the work they are doing.... please forgive me for being against you in the past".

## Delivered Outcomes:

Over a seven-year period (2017 to 2023), the \$243 million program spend delivered a diversified portfolio of development projects and built strong community-level support. These projects (health, education, agriculture and enabling infrastructure) required a long-term view (no "quick fixes") and, in some cases, facilitated positive behavioural change among the targeted beneficiaries.

Scale was achieved by co-locating several initiatives in geographic hubs designed to capture efficiency gains from shared services, shared infrastructure and concentrated management. They also provided a base for outreach programs which target small, remote and poorly served communities. These hubs are described below:

### Balimo Hub

The Balimo Hub grew to deliver the following outcomes by 2023.

- The education program was developed in partnership with KTF
  - FODE provides a pathway for school dropouts to re-enter the education system and in-service teachers to upgrade their qualifications (790 enrolments).
  - E-learning supports 70 remote schools with technology to deliver on-line lessons plus regular coaching for the teachers.
  - The teacher training college educates people from Western Province for employment in Western Province (enrolled a second intake of 40 trainees)

---

<sup>60</sup> *These low-key conversations had to be tightly programmed to ensure consistent and disciplined messaging.*

- A school of nursing is also being developed in collaboration with Divine Word University as part of Balimo College to overcome a pressing shortage.<sup>61</sup>
- An adjacent model school offers classes from elementary to grade 12 and helps our trainee teachers by providing easy access for in-class teaching experience
- It provided the base for a health program which (by 2023) deployed ~120 health professionals and 2 aircraft to support 10 patrol teams, which provide primary health care to 44 remote airstrip communities.
  - Each patrol comprising nurses, midwives, family planning, nutrition and hygiene specialists fly in, stay for 4 days, and return on a regular 6-week cycle.
  - They provide vaccinations; outpatient clinics; anti-natal, child and maternal care; hygiene and nutrition education
  - These Balimo based health professionals also provided support for the Morehead hospital initiative outlined below.
- Two nucleus estate agribusiness projects were launched as part of the Balimo Hub (vanilla and rubber)
- Enabling infrastructure included ~70 houses for staff accommodation; classrooms and offices; power, water and sewerage utilities; and new terminal and hangar facilities in Balimo to avoid inefficiencies associated with weekly aircraft redeployments to and from Mt Hagen; and an all-weather road upgrade to access the campus and airport.

### [Daru Hub](#)

The [Daru Hub](#) transitioned a run-down fish hatchery into a diversified industrial hub which supports a series of agribusiness projects. SDP prioritised investment in agribusiness to create livelihoods in the cash economy. These initiatives incubated early-stage ventures by bridging the funding<sup>62</sup> and management gaps (common obstacles in Western Province).

- A joint venture with IAI was formed to bring in the expertise and technology needed to re-develop the barely functioning fish hatchery into a "state-of-the-art" aquaculture business supplying high-value exports (barramundi, sea cucumber -beche de mer - and sea horse).
- This industrial hub then supported agribusiness projects in Oriomo, Balimo, Morehead and Lake Murray to produce high-value export crops (cocoa, vanilla and black pepper). The business model was designed to support smallholder participants (individual farmers supplying marketable produce from their own land) by integrating these networks into professionally managed supply chains:
  - "Model farms" (minimum economic scale) demonstrate sophisticated farming techniques and provide essential farm inputs for participating smallholders (seedlings, fertilizer, tools as well as an extension service for training and coaching).
  - The business also provided guaranteed farm offtake arrangements for participating smallholders (underpinned by efficient downstream logistics, value-added processing and export marketing. This provides safeguards against transfer pricing and intermediaries eroding farmers' price realisation.

---

<sup>61</sup> Only 35% of the 265 nursing positions are filled in Western Province (50% of all health worker positions including doctors, CHW's and nurses). The shortage is accentuated because 30% of the skilled health workers are employed in administrative roles and 40% are approaching retirement age,

<sup>62</sup> Catalytic funding to get good ideas investment ready (feasibility studies & business plans); patient capital to make projects bankable during their long path to profitability; and concessional smallholder loans to finance their participation without eroding the incentives to perform.

- These initiatives needed reliable, low-cost power and clean water.
  - A 1.5 MW solar power system with battery storage, diesel backup and sophisticated control system was developed as part of the Daru industrial estate
  - A desalination plant fed from deep aquifers with storage tanks and a pipeline connection to the town water supply for the ~30,000 Daru community.

### [Lake Murray Hub](#)

The [Lake Murray Hub](#) was launched as a proof-of-concept trial to validate the proposition that the declining rubber industry can be made commercially viable with significantly improved grower incomes if the yields from established trees could be lifted through a combination of supportive actions:

- A professional extension service to coach growers (latest rubber tapping techniques using modern tools, and careful quality control).
- An assured market and logistics support so growers can sell their product on a regular weekly basis (rather than once or twice a year under previous arrangements).

Target yields (0.9 tonnes per hectare) were achieved after 9 months, well ahead of the 3-year expectation. The economics was further improved by interplanting vanilla among the long-established rubber trees. This momentum prompted a replication of the trial in Kawito (near Balimo) and consideration of investments in a small scale, rubber processing plant within the Daru industrial estate to facilitate an efficient export supply chain.

The Lake Murray agribusiness project was then extended into a hub concept with an education component (e-learning and FODE) and a health component (water-based health patrols) to serve the surrounding communities.

### [Morehead Hub](#)

The [Morehead Hub](#) comprises a hospital (public private partnership managed by SDP) with dental and optometry capabilities and outreach capabilities facilitated by the SDP Health Patrols; an education platform (FODE and e-learning) linked to Balimo College; and a vanilla nucleus estate linked to the Daru Hub.

### [Pipeline Prospect](#)

A [Pipeline Prospect](#) By 2023, a fifth hub development was under consideration. A feasibility study of a solar power development on OTML's Bige reclamation area was undertaken with a view to supplying low-cost power to the Kiunga township; communities along the connecting corridor; and a commercial offtake agreement with OTML. It would also be a catalyst for a co-located agribusiness and other development projects.

## **Managing Setbacks:**

The delivery of these outcomes was not a simple, linear process. SDP adopted a nimble, action-oriented "do-learn-do" approach to get things done and take timely remedial action when projects veered off course. The following examples give a sense of the sort of challenges that had to be managed:

### [Legacy Project Failures:](#)

By December 2017, it had become clear that PNG MicroFinance Ltd. (PML) was a failing business. Cumulative losses had reached K29.6 million and shareholder funds had fallen to the point where a breach of the Central Bank's loan covenant was likely. Some 10% of the

loan book was at risk and the International Finance Corporation wanted to exit the share registrar. The fundamental problem was a flawed business model not "poor management".<sup>63</sup>

Rather than pursuing a simple shutdown option, SDP looked for a successful micro finance company to facilitate a turnaround. A deal was finalised in January 2020 whereby ownership of PML was transferred to MI Bank so it could be rationalised and integrated into this successful business. To facilitate that transaction, SDP guaranteed PML's loan book and paid MI Bank to take on this restructuring effort. Total exit costs came in at K10.2 million which was more cost effective and socially responsible than the K22 million shutdown option.

#### New Project Failures:

Two of the re-launch initiatives designed to build community support (see page 17) failed and had to be reset:

- The school fees (based on student enrolment numbers) were paid directly into school bank accounts to minimise the risk of "leakage" through the government system. The initiative was compromised by inaccurate school lists, enrolment numbers, and records spent. A second evaluation (based on a physical visit of 81 schools) confirmed the program was not working as intended<sup>64</sup> and so the cash distributions were switched to delivering school facilities<sup>65</sup> using third party contractors.
- The "kina-for-kina" co-funding initiative also ran into difficulties. Only one properly considered proposal was received from the politicians (a Kiunga to Sare pipeline for supplying clean water). Another proposal (installation of filter systems on wells supplying water on Daru) was poorly formulated.<sup>66</sup> In both cases, the politicians failed to contribute their co-funding. As a consequence, this initiative was recast whereby SDP identified projects in consultation with an elected Member but then took responsibility for the design, funding, contracting and project management.<sup>67</sup>

SDP engaged with North Fly Rubber Ltd. (NFR) with a view to orchestrating a turnaround of the well-established but languishing rubber industry by transitioning the business from a heavily subsidised smallholder co-operative into a commercially oriented nucleus estate business model. SDP commissioned a rigorous business plan; canvassed experienced JV partners to professionalise the management; and committed to funding the 12-year transition plan. A MOU was signed whereby both parties agreed to a collaborative effort to implement the plan, but NFR then reneged, and so the initiative stalled.

---

<sup>63</sup> *The business lacked scale in a fragmented market (4 registered micro finance institutions in the small PNG market) and relied on a costly branch network unlike MI Bank which used telebanking and agents to serve their customers. The IFC threatened to exercise their option as their exit mechanism.*

<sup>64</sup> *It was supposed to support school infrastructure and supplies. While some school communities spent the monies wisely, SDP couldn't control how the money was spent and numerous examples of misappropriation by school principals and board members were uncovered.*

<sup>65</sup> *New classrooms were delivered in 42 schools and new toilet facilities in another 30 schools*

<sup>66</sup> *The Member submitted a K3.645 million proposal to upgrade 8 wells. SDP achieved a 32% saving by canvassing alternatives and insisting on another contractor.*

<sup>67</sup> *Examples included new facilities for the Kiunga Secondary School and a new terminal for the Kiunga airport.*

### Corruption Challenges:

In May 2006, SDP looked to purchase Cloudy Bay, a run-down, unprofitable forest products company. Based on advice from three independent experts<sup>68</sup>, an 80 percent shareholding was acquired in June 2007 for Kina 38 million (later increased to 100 percent in 2010 without further consideration).

SDP then embarked on a K260 million redevelopment program. Additional logging concessions were purchased; the company was re-equipped with new processing facilities; 400 new jobs were created; and a new strategy was adopted to demonstrate best practice sustainable forestry (logging; saw milling; value-added manufacturing; investments in social infrastructure and services).

These works came to an abrupt halt following the expropriation of OTML shares. A government appointed SDP director was appointed to the Cloudy Bay board in July 2013 to orchestrate the sale of Cloudy Bay.

An Information Memorandum was issued on 6<sup>th</sup> December 2013 and Lifese Engineering Limited, an Australian company with a successful track record in PNG was introduced as a potential buyer by OPPA Limited (a British Virgin Islands company)<sup>69</sup> in late 2013. The sale process was well advanced before SDP's other directors on the Cloudy Bay board became aware of the situation. The Cloudy Bay chair did not reveal his shareholding in OPPA (a clear conflict of interest).

The K40 million purchase price supposedly reflected a forced sale to Lifese which paid a K15 million down payment with vendor finance covering the K25 million balance (to be repaid with interest within 12 months).

Lifese granted OPPA a 25 percent carried shareholding in Cloudy Bay (supposedly in return for promises to facilitate government housing contracts) and made K5.8 million in illicit payments to OPPA for arranging the Cloudy Bay purchase on such favourable terms.

Lifese then failed to meet their repayment obligations under provisions of the sale contract prompting SDP to serve a formal demand on Lifese and OPPA for monies owing under the Cloudy Bay sale agreement. Lifese responded by claiming K47 million losses (from misrepresentations and fraud during the leadup to the Cloudy Bay sale).

Cloudy Bay had signed a flawed management contract with PAKO S & C Holdings; allocated K538,138<sup>70</sup> in unauthorized payments for the then Chair's personal use; allowed K1,704,271 in an infrastructure account to go missing; sold mobile equipment without depositing the proceeds in the company bank account; and made several irregular staffing decisions to the detriment of the business.

---

<sup>68</sup> KPMG's financial assessment was submitted in March 2007; Povry Forest Industry (a global forest management consultancy) submitted its report in May 2007; and Marie-Sophie Blanchet (independent consultant) reconciled various financial projections to determine the final Kina 45 million valuation (report submitted June 24<sup>th</sup>, 2007)

<sup>69</sup> One of the three OPPA Ltd shareholders much later, disclosed all their names which included the then Chair of Cloudy Bay.

<sup>70</sup> There were suggestions of further unauthorized expenditure (Mr. Son Chin-Sik, the PAKO chief executive, claimed the Cloudy Bay Chair syphoned off other funds for personal expenses e.g. a ~K40,000 for the hire of a 4WD vehicle).

SDP launched an investigation of the Cloudy Bay irregularities and the unauthorised actions by the then Chair, including the supposed forgiving of the vendor finance loan. The findings were tabled before the SDP audit committee which commissioned an independent investigation that verified the Chair had been at the centre of very serious corruption activities.

These findings were reported to the relevant authorities, the former Cloudy Bay Chair was dismissed from the SDP board, legal action was initiated against him in the Singapore courts. SDP was awarded K20 million damages in March 2020 prompting an unsuccessful appeal in May 2021. A final court decision in SDP's favour enabled enforcement actions to recover damages in Australia and PNG (although PNG's Chief Justice issued a restraining order preventing SDP from exercising its mortgage rights over the 9 Mile property (which was registered as security for the vendor finance)).

#### Deal Structures:

Having delivered its telecommunications upgrade through Digicel, SDP pursued a Mobile Financial Services initiative to provide an effective banking system for remote rural communities.<sup>71</sup>

This concept was developed in consultation with Digicel, which had previously spent 2 years investigating the possibility but decided to shelve it because of the heavy start-up losses and the 6-year path to profitability. To overcome this barrier, SDP made an in-principle commitment in 2018 to provide \$30 million catalytic funding to launch the project. The business plan was approved by both parties and in August 2019 SDP approved a \$10 million initial drawdown (subject to certain pre-conditions) and both parties agreed to seek additional co-funding from third party impact investors.

Under the agreed arrangements, SDP was to recoup its investment plus a 3% IRR from a 50% share of future profits. However, after the contract negotiations were almost finalised, Digicel's auditors determined that the funding arrangement could be construed as a loan and breach certain covenants. As a result, the project failed to materialise<sup>72</sup>.

#### Partner Performance:

SDP wanted to act as a catalyst for delivering successful projects by assembling suitable implementation partners and providing necessary funding while remaining actively involved to push efficient and effective outcomes. In several instances poor partner performance prompted major interventions:

For example, SDP sought to leverage its upgraded telecommunications infrastructure to deliver an innovative e-learning education initiative. In November 2018, a proof-of-concept trial was initiated with Digicel appointed project manager and Save-the-Children (NGO) providing education expertise.

---

<sup>71</sup> Only 37% of PNG adult population had bank accounts and rural communities were disproportionately disadvantaged; 70% borrow money but less than 5% of loans come from the formal banking system; money lenders charge exorbitant fees (up to 40 to 50% per fortnight).

<sup>72</sup> SDP floated the possibility of using an option arrangement whereby SDP would own the business and give Digicel an option to purchase it at a strike price that would give SDP its 3% IRR but that was rejected by Digicel.

This initiative aimed to improve numeracy and literacy among 9,000 students in 80 schools using 4G internet technology. The 320 teachers were trained to become on-site "custodians" of the initiative and an extension service encouraged parents to support the students.

Rigorous testing was undertaken to monitor before and after outcomes<sup>73</sup>. The baseline assessment indicated nearly half grade 3 students could barely read a single word and over half of the grade 6 students failed to recognise 3-digit numbers and couldn't complete a grade 2 maths assessment. Teacher absenteeism had a major impact on student motivation, and the teaching culture was generally resistant to change.

From its outset, the undertaking encountered serious setbacks (delays loading student tablets with their education content, logistics difficulties delivering them to the schools and tablet theft from the schools). It was therefore decided to extend the initial trial to June 2020 so its effectiveness could be judged over two full terms.

The project's focus on technology didn't work (tablet usage averaged 1.7 hours per week; the average student accessed only 1 digitised book every 3 weeks; and the tablet theft rate reached 16%). These difficulties prompted SDP to hold a planning workshop with the managing partners and several education specialists to discuss the issues and canvass improvements.

Things continued to drift until the whole exercise was put on hold by the COVID outbreak, prompting SDP to drive a fundamental reset. KTF was appointed to replace the previous partners; student tablets<sup>74</sup> were switched to classroom screens; school management and teacher support<sup>75</sup> was prioritised (rather than the technology); and additional support was provided by Balimo College, Western Sydney University, and Bilum Books. This reset facilitated a successful turnaround and sustainable growth.

SDP's airstrip maintenance initiative provided another example of poor partner performance. Because most Western Province airstrips had closed because they hadn't been properly maintained, SDP contracted Rural Airstrip Authority (RAA) to survey and maintain 54 airstrips over a two-year period. By the end of that contract period, only 30 airstrips were operational, and RAA was asking for more money. RAA was then experiencing internal problems (top-heavy overheads, poor reporting, infrequent airstrip visits, weak community engagement, poor supervision of the airstrip maintenance officers) their conflicting priorities led to a misallocation of the SDP funding.

This prompted a reset whereby a new (jointly resourced) service was based in Balimo to focus on Western Province airstrips. SDP took more control and oversight<sup>76</sup> to achieve major cost savings and performance improvements.

---

<sup>73</sup> The metrics included absenteeism and dropout rates as well as numeracy and literacy test results.

<sup>74</sup> The remaining tablets were recalled and redistributed to Balimo College (teacher training) and high schools

<sup>75</sup> In recognition of the fact that teachers rather than technology are the real agents for change. Coaches visit all participating schools each week to coach and mentor the teachers.

<sup>76</sup> SDP now controls the procurement (mowers, windsocks, cone markers, fuel & oil); stores; mower maintenance; community engagement; and routine airstrip maintenance. RAA is responsible for AMO training, any serious remedial work; conducting surveys; and dealing with CASA (regulatory oversight).

### Strategy Resets:

In May 2018, SDP provided funding for MAF to launch their flying medical team proposal whereby two mobile medical teams (doctor, dentist, optometrist, nurse and education officer) would fly into remote communities every four months and provide medical evacuations. This funding commitment covered the purchase of an aircraft and the startup operating costs.

The initiative was plagued by poor execution because MAF lacked some of the skills needed "to make it happen".<sup>77</sup> The resultant lack of progress prompted SDP to step in and take control of the initiative in February 2019 and limit MAF's responsibilities to providing the aviation support.

SDP ran a two-day planning workshop in March to tap the expertise of experienced health professionals from PNG and then used those insights to develop a practical approach for delivering primary health care to remote communities in Western Province.

SDP had to act quickly because the purchased aircraft was due to be delivered in April. They opted to manage the project in-house (a departure from the preferred policy); signed a MOU with the Provincial Administrator; negotiated temporary access to government housing with the Member for Middle Fly; recruited a small in-house team; and negotiated arrangements with Marie Stopes, Australian Doctors International and Sago Network to secure the medical expertise.

The Aerial Health Patrols initiative was launched in July as a proof-of-concept trial to be easily adapted in the light of practical experience. The model evolved quickly whereby patrols (comprising 7 experienced health professionals) fly into remote communities; stay for 3 to 4 days; and then return on a regular 6-week cycle<sup>78</sup> (a unique model in PNG).

This proved to be a very successful initiative which grew rapidly to become a major health service provider in Western Province.

### Poorly Aligned Agendas:

SDP's agribusiness developments on Daru needed a reliable power supply, as did the poorly served local community. In 2019, SDP commissioned a technical and economic evaluation of a solar power and battery storage system to replace the costly and unreliable diesel generating system operated by PNG Power Ltd (a state-owned enterprise).

Initial consultations were held with the local Member in February 2020; a MOU was signed in August; several credible JV partners were canvassed to implement the project; and preliminary discussions were held with the Australian Department of Foreign Affairs and Trade (DFAT – which by then had assumed the Australian aid delivery function from the former AusAID) to explore the possibility of collaborations as part of their Economic and Social Infrastructure Program.

---

<sup>77</sup>While MAF had deep aviation expertise, they lacked health care skills and new project management skills. There was a lack of collaboration because SDP was perceived as a "donor" not a "partner".

<sup>78</sup>Regular visits were necessary to deliver effective primary health care (vaccinations, out-patient clinics, maternity & child health, ante-natal care, nutrition, family planning and village hygiene). The strict 6-week cycle meant the patrol service couldn't provide ad hoc medical evacuations because this would disrupt the schedule. However, SDP's health team does facilitate medical evacuations by other service providers.

SDP shared its scoping studies with DFAT's<sup>79</sup> consultants, pushed ahead to bring the project to FID stage and then invited DFAT's participation in a "shovel ready project" (explaining that, while it didn't need DFAT's money, their participation could pave the way for future jointly sponsored projects). Shortly after, DFAT commissioned another Daru power study (without informing SDP) and attracted political support for its project, which never eventuated.

SDP proceeded with its solar power development and commissioned the first phase in August 2022<sup>80</sup> (it was scaled to support the SDP agribusiness developments as well as a desalination plant, developed in consultation with Water PNG, to supply clean water to the Daru community).

However, failed collaboration stalled SDP's broader community power supply initiative. SDP's offer to supply community power from its existing facility (as originally planned) was explained during the Development Forum held early 2023 and an understanding was reached whereby SDP would expand its solar capacity to supply the Daru community through a power purchase agreement (PPA) with PNG Power and DFAT would upgrade their retail distribution network.

SDP signed a MOU with PNG Power in August 2023, whereby it would increase its solar powered generating capacity and develop a transmission line and transformers to supply the community with reliable low-cost power under a highly concessional PPA. However, things stalled because the ministerial approval was not forthcoming. SDP then worked towards a more limited objective of just supplying the Daru hospital.

#### Legal Distractions:

When Young & Williams (a PNG law firm) announced they had issued a writ in the Singapore courts to capture SDP's Long-Term-Fund on behalf of Ok Tedi Fly River Development Foundation (a supposed community-based entity sponsored by Samson Jubi and Pastor Bagari SDP responded by mounting a vigorous legal defence. It also publicly questioned the motives of the key players by facilitating the publication of a statement in the National newspaper raising the following questions under the heading "*Where Has All The Money Gone*":<sup>81</sup>

- *"What exactly is this 'foundation' which claims to be the legitimate representative of the mine affected communities in Western Province? But how legitimate is it? Could it simply be a vehicle for a small group of self-interested and self-serving individuals filling their own pockets instead of supporting the very people they claim to represent?"*
- *"So far Samson Jubi and Pastor Bagari have managed to capture K288 million of CMCA monies drained from an ANZ bank account. This begs the question, 'where has the money gone'? There is clear evidence which shows:*
  - *K52 million went straight to the law firm*
  - *K20 million was withdrawn and dissipated in 2014 (before OTDF obtained an injunction freezing the account)*
  - *K26 million was transferred to the foundation in 2019*
  - *K190 million was transferred to a Westpac bank account in 2020"*

---

<sup>79</sup> Australia's Department of Foreign Affairs and Trade

<sup>80</sup> There had been a lot of talk about solar powered electrification in PNG since the 2018 APEC conference (IFC, DFAT, USAID) but by 2022, SDP had delivered the only industrial scale project.

<sup>81</sup> The statement was signed by SDP's Chairman, the Member for North Fly and the acting DDA Chairman of Middle Fly (the Post Courier refused to run it)

Pastor Bagari and his cohorts gained considerable community support for its attack on SDP by promising large cash handouts when they captured SDP's LTF. However, this community support dissipated when he failed to deliver, and SDP successfully defended itself against this action before the Singapore courts.

### Organisation Implications:

These setbacks illustrate SDP's need for building the capabilities to operate effectively in a particularly challenging environment. Aside from collaborating with targeted beneficiaries and other key stakeholders, SDP had to develop the sort of deal making capabilities seldom found among NGO's, governments and aid agencies.

It required an action-oriented approach to generate project ideas, help shape each project, attract implementation partners, monitor progress against planned outcomes and intervene where circumstances changed or things veered off course. Managing the associated risks and difficulties required an entrepreneurial skill set.

As its re-start agenda gained momentum, SDP sought to refine its policies, systems and processes without becoming slow, bureaucratic and risk averse. Progress on these issues started to gain traction in early 2022 when an organisation development workplan was tabled to address:

- Professional development of existing leaders to facilitate performance improvements and promotions
- New recruits to handle the workload and fill the talent gaps
- Organisation structure (roles and reporting relationships) to match the growth agenda

The need for these improvements was emphasised by the fourth independent review (tabled in December 2022) which raised four related issues.<sup>82</sup>

- Retain the "test and learn" culture as the programs grow
- Strengthen inhouse capabilities through recruitment, training and succession planning
- Deploy appropriate metrics to improve performance and attract new partners
- Balance the need for "focus" against the demands to "do more"
- Clarify a more concrete picture of where the program should be in 10 to 15 years' time

### Future Possibilities:

SDP's track record begs the question of whether some of its successful initiatives could be leveraged as proof-of-concepts to be replicated elsewhere in PNG, possibly by a new, locally based impact investor shaped by the following guiding principles:

- Operate as an autonomous agency to generate project ideas; help plan and structure each initiative; facilitate the funding arrangements; bring the projects to a final investment decision; provide ongoing project oversight to track progress against planned financial and social impact outcomes; and facilitate interventions if things veer off course (analogous to the way private equity firms manage their investments).

---

<sup>82</sup> It also noted that the spending program had performed particularly well during COVID and that there had been a "noticeable increase in community support".

- Pick a few carefully shaped, medium scale projects (5-10 million kina) and co-locate both "for-profit" and "not-for-profit" initiatives in geographic hubs to build scale and capture the synergies.
- Use experienced implementation partners to manage each project. They must bring local knowledge, deep project-specific expertise, a track record of facilitating local leadership and commercial disciplines to drive efficiencies and effectiveness.
- Engage in careful stakeholder consultations to build support for each project and balance various interests with the management capabilities needed to "make things happen".
- Take a long-term view by matching each project's planning horizon with its problem horizon (a minimum 8-to-10 year funding and management commitments are needed for projects to have a lasting impact).

While delivering a substantial portfolio of development projects might be the ultimate objective, this will have to be tackled in phases with clear milestones, deliverables and stop-go decision points.

The starting point should be the identification of one or two plausible project ideas and credible implementation partners. These ideas then need to be incubated to "investment ready" status.

- Prepare rigorous business plans with economic modelling and risk assessments.
- Consult with relevant stakeholders (targeted beneficiaries, relevant authorities etc.) to build support and facilitate necessary approvals.
- Identify potential funding sources and engage in detailed financial engineering deliberations as a precursor to negotiating tailored finance structures for each project.
- Negotiate management contracts and deal structures with the implementation partners.
- Prepare the legal documentation and specify the governance structures and decision rights
- Facilitate the fund raising and deal making to bring these carefully considered project ideas to a final investment decision:

Catalytic funding is needed for this phase<sup>83</sup>. From there, different instruments (grants, concessional capital, first-loss capital, private equity, impact bonds, guarantees, tax credits, revenue floors etc) can be used to allocate project risks and returns to match the preferences of different co-investors. Patient capital can support a project's path to profitability and philanthropic funding can underpin not-for-profit initiatives.

These blended finance solutions can help build scale, broaden the agenda, and facilitate innovations<sup>84</sup>. The trick lies in facilitating partnerships among investors with different objectives, risk tolerances and timeframes. Finding areas of alignment among potential players and managing their expectations to structure deals which cater for different mandates requires a special skill set.

---

<sup>83</sup> For example, the Indo Pacific Blended Finance Accelerator (funded by DFAT and managed by Convergence Blending Global Finance) provides catalytic grant funding and subsequent support to scale high-impact blended finance solutions.

<sup>84</sup> Take the experimental risks associated with launching to new programs shaped by a "do-learn-do" mantra which other agencies avoid due to commercial and political constraints or bureaucratic inertia.

Development finance and philanthropic funds are increasingly acting as a catalyst to mobilise private capital and impact investing is a growing sector which mobilises private capital to invest in projects that generate both financial returns and a positive social impact.

A broad range of investing practices is now deploying different combinations of philanthropic, catalytic and commercial capital in a departure from the traditional view that social issues should be addressed by government and philanthropic initiatives, while the private sector should focus on financial returns.

This begs the question of what sort of vehicle could act as a catalyst for leveraging these innovations to solve some pressing problems in PNG? It must be capable of generating good project ideas, attracting the right management partners, and facilitating blended finance arrangements tailored to the specifics of each project. Negotiating skills are needed to do deals with grant makers, venture philanthropists, impact investors, fund managers, capacity builders, social enterprises and development finance institutions.

There are offshore precedents which can provide insights to help shape a PNG vehicle with these capabilities<sup>85</sup>. However, to be effective in PNG, these offshore capabilities must be integrated with deep local knowledge and in-country connections. This points to the need for a new innovative vehicle in PNG.

## About John Wylie

John spent most of the 1970's working in PNG, initially with South Pacific Brewery and then with the General Financial and Economic Policy Division in the Department of Finance. During that time, he was actively involved in the establishment of the Institute of National Affairs, writing one of its first policy papers, based upon the INA's first research project "a Survey of Foreign Investment in PNG" – April 1977. After further studies, he spent 17 years as a strategy consultant advising corporations on their response to changing competitive dynamics and industry structures. He then spent seven years as an entrepreneur establishing a vertically integrated agribusiness in Australia before a trade sale exit. From there he moved into impact investing, initially with AgDevCo in Mozambique and then, from 2015, with PNG Sustainable Development Program Ltd, where he was the CEO from 2019 till the end of 2023.

---

<sup>85</sup> For example, the SDG Outcomes Fund was developed by the UBS Optimus Foundation and the Bridges Outcomes Partnership. The Optimus Foundation provides first loss capital to support outcomes-based programs in low- and middle-income countries (focussed on health, education, women's economic empowerment, and the environment). The Bridges Outcome Partnership is a not-for-profit impact specialist which acts as a portfolio and delivery manager by bringing together like-minded partners to shape innovative solutions



## 2024-2025 INA Contributors

Agmark Pacific-NGIP  
Air Niugini  
Airways Hotel/Hebou/Constantinou Group  
Allens Arthur Robinson  
ANZ Banking Group  
Arman Larmer Surveys Ltd  
Ashurst PNG (ex Blake Dawson)  
Bank of Papua New Guinea  
Bank of South Pacific  
Barrick (PNG) Ltd /New Porgera  
Brian Bell and Co. Ltd  
Business Advantage  
Business Council of PNG  
Chemcare Pharmacies Pty Ltd  
Coffee Industry Corporation Ltd  
Comrade Services  
CPA  
Credit Corporation (PNG) Ltd  
Curtain Brothers  
Deloitte Touche Tohmatsu  
Dentons (ex Gadens) Lawyers  
Digicel Ltd  
Dulux Group (PNG) Ltd/Orica PNG Ltd  
Employers Federation of PNG  
EmTv  
Express Freight Management  
ExxonMobil  
Fincorp  
Garamut Enterprises  
Global Internet  
Haginia Builders Ltd  
Hargy Oil Palm  
Hastings Deering  
Institute of Banking and Business Management (IBBM)  
Institute of Business Studies  
Investment Promotion Authority  
Kenmore Pty Ltd  
Kina Finance/Bank Ltd (CFO - Johnson Kalo)  
KPMG Peat Marwick  
Manufacturers Council  
Marsh Ltd  
Monian Ltd

Mt Hagen Diocese  
Nambawan Super Ltd  
NASFUND  
National Capital Development Commission  
New Britain Palm Oil Development Ltd  
Newmont (Lihir Gold)  
NG Highlands Coffee Exporters  
Ok Tedi Mining Ltd  
OMH  
Origin Energy/Geogas  
PNG Sustainable Development Program Ltd  
PomCCI (Rio)  
Port Moresby Stock Exchange  
Price Waterhouse Coopers  
Robin McClennan  
Santos / Oil Search  
Seeto Kui  
SP Brewery  
Steamships Trading Company  
Steel Industries Ltd  
Theodist  
Twinza Oil (PNG) Ltd  
W.R Carpenter (PNG) Ltd (now Carpenter Estates)  
Wafi Golpu Services Ltd (Morobe Mining JV)  
Water PNG