

2010 Budget

The 2010 Budget documents are larger than ever before, with an extra volume thrown in and an extra chapter on managing resource flows and addressing the Dutch Disease. But does size equal quality?

PNG weathered the storm of the global economic crisis relatively well, thanks largely to the strong commodity prices of 2006-2008 and saving funds for a rainy day, continued strong prices of some of PNG's export commodities even during the crisis (notably gold and some agricultural crops), together with better fiscal planning and restraint (following the 2006 Fiscal Responsibility Act), and a relatively unexposed (if un-dynamic) financial sector. We didn't need a fiscal expansion programme as it was already operational.

Ostensibly the 2010 Budget is sound. It indicates strong growth in 2010, partly based upon the assumption of PNG LNG proceeding (and accounting for 3% of the forecast 8.5% growth rate). It assumes sustained recovery of major commodity prices, which seems reasonable considering prices have already reached those levels. There are risks that the improved revenue (largely from mineral and income taxes) will not occur, with little remaining back up, as the accumulated windfall savings have been largely exhausted this year.

The Budget correctly provides a major focus on infrastructure and rural development, particularly by restraining growth of the recurrent Budget and directing increased forecast revenue (including increased donor funding) to the development budget. The Government funds go largely roads and other infrastructure, plus district support including for agriculture, whilst much of the donor contribution goes to building up education capacity and other health and social services.

The main problems apart from further external risk, relate to the high inflation rate since late 2007, which is forecast to rise further in 2010 (to 9.5%). If the relative loss of fiscal control shown in 2009 with the Trust Funds is an indication for future commitment, and with the likely influx of funds associated with LNG (and the BSA application) inflation could be pushed much higher. This will be heavily determined also by commodity prices, the exchange rate notably with the Australian dollar, and the capacity of the Treasury to coordinate fiscal and monetary policy application with the Central Bank.

The allocation for main and rural roads, bridges and airstrips is crucial for extending economic and social opportunities to the wider population. However, it is crucial that adequate funding is provided in the recurrent budget for maintenance. The recurrent budget should not be under-valued; it is the core function of Government in terms of providing ongoing infrastructure and services, teachers, medicines, school books etc. The development budget is partly about catching up with the backlog of failure to maintain and expand capacity over the past decades. If we fail to maintain then we must continue paying the exorbitant costs of restoration, as we are once again with Lae roads (and all our other infrastructure).

The Budget talks of the benefits of competition and yet, it once again forks out money for Air Niugini Aircraft. The PNG can see the benefits of competition since Digicel

entered the market and also made Telikom wake up. Some air-services have improved with competition, but Air Niugini should be freed up and allowed to go to the commercial market, not depend upon Government, and competitors should be allowed to compete more fairly on main routes, also to be able to support the services provided to the largely forgotten remoter strips (which the third level carriers service and Air Niugini does not). PNG's Ports needs major further investment and restoration or the countries (international and domestic) trade-led economic growth will not occur; this again requires private capital is invested, to complement government and donor funding, perhaps also entailing some competition. In essence the State should restrict its to core infrastructure and services and allow the private sector to invest and run commercial services.

So what of the District, rural development and agricultural funding which is a core focus. This continues to use the DSIP approach, with the NADP agricultural funds now also being allocated on a K1 million district by district basis. The implementation of DSIP and NADP funds in the past using Trust Funds and largely politically controlled has meant that, whilst some effective utilisation has occurred in some electorates, much of the funding has been relatively unaccountable and focused upon political largesse, especially projects in favoured portions of electorates. A very rigorous process of transparent planning, screening and monitoring of expenditure is required, at arms length from the Member and his coterie. If PNG is to promptly improve its atrocious human development index (MDGs etc) and provide broad-based opportunities rural development funding needs to be much more specifically targeting and managed in 2010 and than under the various programmes until now, or PNG will continue to waste its capital and opportunities and continue to be ashamed as the relatively resource rich Nation which fails to look after its population.

And this is where human resource development comes in. If the public sector is to play its part, in partnership with the private sector and civil society which are currently running the economy and much of the country's services, rather than be a handicap to the private sector and civil society, then investment in human capital is required. It is not simply the numbers in the Budget which matter, but the quality of expenditure. PNG spends an internationally respectable portion of its GDP on education already, and yet only 50% of children enter basic education and much of the system, including the technical colleges, is run down or failing to meet standards required. What is especially required in the public sector is capable and accountable management, which reports to Ministers and accountable to Parliament, but is not manipulated on political grounds, with effective systems in place to ensure staff are trained and perform. Over recent years public service accountability has partly broken down and systems abandoned. It is not an impossible job to restore capacity, standards, accountability and morale, but it requires commitment from the top and pressure from the public.

Agriculture has gained some attention but there continues to be no effective strategy to build up the sector, and simply throwing K1 million randomly at each District is not the answer, nor K26 million at plantation development, which could prove as wasteful as the millions already spent on cattle in the NADP so far.

Planning to benefit from PNG's resource wealth, and minimise the resource curse is going to be a growing challenge. It and the high expectations are already posed

various problems. Consideration of the issue in the Budget is welcome, although no firm commitments are in place. Unless firm mechanisms are established in advance, including to address already widely prevalent corruption, then the resource boom will turn to fizzle and be sucked up by a small elite, as prevalent in some many other resource rich countries, as in Africa. LNG revenue will not occur till after about 2017 (except indirectly). Our past track record with stabilisation is poor and we must do much better with a prospective and sanitised future (or sovereign) fund.

In the meantime, whilst economic activity and export earnings will rise with the new mining projects (Hidden Valley, Ramu Nickel etc), revenue will still be dependent substantially upon a few existing projects, notably Ok Tedi and Porgera and in future Lihir, so budgetarily PNG will remain highly upon those projects and a few commodities. Why, well partly because Government over recent years has granted so many 10 year tax exemption on some mines and even the major new hotel/casino. There are no new tax measures in the 2010 Budget, but there does need to be a prompt review of taxation arrangements to ensure a more level playing field between different investors, to encourage the agriculture sector and economic diversification (especially in the face of the LNG boom which will suck up various skills and potentially undermine various other industries unless strong counter measures are taken) and ensure that projects provide net gains to the economy, rather than promising the earth to selected favoured suitors.

So the Budget is generally sound, in principal, but the Government's capacity to implement it and ensure effective use of funds to build up infrastructure, capacity and services and be accountable to meet the country's crying needs is very weak. The Government needs to show much more commitment to overcoming those weaknesses, and there's little evidence of that yet, in terms of improving capacity of institutions to plan and oversee public funds to meet set objectives. Some of the rhetoric is there in the Budget, but there needs to be much more practical evidence.