## Focus for a new Government and Parliament

By the time this issue has come out there should be a new government in place. It will be hard to form a coherent government with clear policies and strategies, as the new team will comprise an assortment of parties and independents, some elected with party manifestos, but others with few policy objectives, other than promises of providing various services or other benefits to their electorate or clansmen. Many of the elected MPs will be newcomers to Parliament or government, with little idea of the Parliamentary rules and procedures, let alone those of government.

The good thing is that there are long established rules and procedures which apply, and there are some experienced current and past Parliamentarians and officials able to provide needed guidance for the newcomers. It is important that the newcomers make the effort to learn promptly, and not assume they already know or will just pick it up over time. It is also true, however, that there are some, both within and outside Parliament and government, eager to introduce bad ways and manipulate the new MPs for their own interests. Parliament is there to make law and oversee the executive government, but both Parliament and government and its agencies must be accountable to the wider community which they serve.

The new Government in 2007 has the immense advantage of inheriting a relatively buoyant economy, resulting from several years of strong commodity prices, but supported by prudent fiscal and monetary management (steered by the two former Treasurers and the Central Bank) and some major reforms, introduced largely by the former Morauta government but partly sustained by the last government.

Five years of political stability, enabled by the Integrity of Political Parties legislation, meant that longer term economic and development planning has been possible and can be implemented steadily. Hence, the Medium Term Development Strategy, complemented by the Medium Term Fiscal and Debt Strategies and various related public sector strategies have been applied, if somewhat hesitantly and inconsistently in the case of public sector management, but with potential lasting effect.

These strategies have helped reduce debt to more manageable levels, enabled funds to be allocated to real priorities, reduced interest rates and freed up loan and equity finance for commercial investment, diversifying away solely from the mineral sector and real estate, but progressively also towards viable small-medium enterprises, including selected agricultural activities.

Various other important policy directions were launched during the term of the 2002-2007 government, including over police and law and order coordination, land administration, encouraging the informal sector, public sector management and service delivery, provincial and local level financing, and (inconsistent) encouragement for greater competition. Some of these reforms and strategies (as with the informal sector) have made solid progress, others have taken initial steps (though inconsistently applied,

as with public sector appointments) but others have entailed preliminary announcements, with little subsequent follow up.

The economy has seen positive growth over the past four years, exceeding the population growth rate for the past two and a half years. But it should be recognised that the in real terms economy has not yet grown from its level at the beginning of this decade, nor since Independence. The benefits of recent growth remain largely in a few enclaves, and small portions of the community, largely in some industries and urban centres. In other words development has been limited and highly skewed, with households living in more remote areas, particularly, having been largely by-passed. The economy remains fragile and heavily dependent upon the high prices of a few, largely mineral, commodities. Debt levels are at more sustainable levels but remain risky, with economic growth certainly not yet on a sustainable basis, and easily capable of returning to the swings and troughs of earlier years, especially if frivolous expenditure is adopted, with fiscal control relaxed, and new net borrowing undertaken. For the new government to build on the positive progress of recent years it needs to be prepared both to be bolder, send out more consistent signals to investors (large and small), and be more accountable. It needs to sustain the prudent economic management, whilst being firmer in pushing through needed economic and public sector reforms, and then stick with them.

The private sector is the key to economic development, comprising not just large corporations but also small and medium enterprises and the informal sector, consisting overall of hundreds of thousands of decision-makers determining, for example, whether to invest in a new mill, tourist lodge or replant with new hybrid tree crops, and whether to save or defer investing until conditions are better. They are making their investment decisions based upon their experience, assessment of opportunities and risk, and factors like arbitrary government intervention (e.g. the tendency in PNG to change rules arbitrarily or forfeit licenses at will) or risk of tribal fighting, for example, severely undermining investors' willingness to commit funds, time and effort into new ventures or expansion.

It is particularly the growth and increased diversity of the micro to medium enterprises which will determine whether economic growth is sustainable and embraces the whole community. Agro-nucleus enterprises are especially valuable in providing viable and widespread farming opportunities. They usually entail an investor with knowledge and capital taking the lead, but in some cases may entail cooperative or group marketing. Such nucleus enterprises do not simply mean oil palm, but potentially also a wide range of other, usually smaller-scale activities, from tree crops and spices (as with Pacific Spices in ENBP), to fruit (as with Sogeri pineapples), nuts (e.g. cashew nut and maybe galip developments) and vegetables, livestock, fish farming and honey. They all benefit from partnerships with outgrowers, access to suitable planting material or stock and extension advice, plus the provision of economies of scale in marketing, including accessing new specialty markets (as with organic coffee and other products).

The priority for government is providing stable and suitable investment conditions, <u>not</u> subsidies or incentives (except on welfare grounds), nor exclusive deals for favoured

(mineral, hotel or other) investors. In a more developed economy the role of the Government is relatively small, as the market and systems operate relatively automatically. Hence in Italy (a developed country prone to political turbulence) for many years governments came and went incessantly, making not a hoot of difference to business and the economy. In less developed and more fragile economies, where many of the functions of the State are performed inconsistently, the impact of government change is greater, with the positive implication that, where performance by the State is significantly improved, it will have a very tangible positive impact on the economy. Such improvement here would entail government improving its own implementation capacity, such as ensuring roads are maintained, or in some cases that bureaucratic impediments to business are streamlined, like permits being issued promptly or restrictions on (genuine) competition to State owned enterprises being removed, for example for telecommunications, airline services or utilities.

PNG has extensive natural resources which have a strong international demand, including mineral, land, forest and marine resources. We need internationally competitive investment conditions, but we don't need to relinquish these resources too cheaply, or undermine our labour or environmental standards to attract investment. We need to periodically review our tax and investment criteria to ensure they remain competitive. Unfortunately viability in one major sector sometimes impinges upon the prospects of another, with viability of much of the agricultural sector (employing the majority of households) tending to be jeopardised if kina exchange rates are pushed up too high by strong demand for mineral exports. Particular care, is required by central agencies (including BPNG) in addressing this issue, although practical policy options are limited.

If we have suitable and stable conditions then reputable local and international businesses will naturally invest. If investors think business opportunities can only proceed or resources be accessed through back door deals, then only the less scrupulous ones will hang around, (too often welcomed by greedy or naïve counterparts within government) and invariably the PNG population will be the losers. This has been the case in many resource businesses over the years in PNG, and in some local processing, where unscrupulous investors sought State-guaranteed market access and profitability, at the expense of consumers (of certain imported fish products) or other business (as with cement), pushing up the costs of living and business.

If certain natural resources can only be extracted or processed, or investors only attracted if allowed substandard health and safety or environmental standards, or by offering exclusive tax breaks, then the country would be better off foregoing such projects or leaving the resources in the ground (or the water), at least for the time being until market or investment conditions are considered conducive, including by reputable operators. The valuable reforms to the superannuation industry in 2001, combined with entities such as PNGSDP, have helped ensure greater local investment capital becoming available for equity in commercial investments in PNG, including mining and urban development, but also agriculture, sustainable forestry and other activities where deemed viable.

In an increasingly polluted and heavily populated world, particularly in much of neighbouring E Asia, PNG's greatest assets are its productive land and marine habitats, for producing healthy uncontaminated food and other products on a sustainable basis (including forestry and natural forest management including for storing carbon - and conservation) and for tourism. It is important that those long-term assets are not jeopardised by shorter term opportunism. Our regional tuna stocks, notably big-eye and yellowfin, for example, are under increasing pressure. We must ensure maximum local benefits on a sustainable basis. Making quick deals, advantaging certain preferred investors, but jeopardising the stocks and the future of the industry and providing limited jobs for local crews, processing or other multiplier effects would be tragic. Yet such deals are regularly being promoted and too often seriously considered.

Despite (or in some cases because of) its rich natural resources and a generally well-motivated and productive, if poorly trained, workforce, PNG's economic potential has been restrained for years, not by lack of special incentives (which are generally counterproductive), but by failure to address the fundamentals needed for investment and business (by large and small enterprises alike), notably: -

- ensuring sound law and order conditions (in turn dependent upon generating economic opportunities and jobs);
- rigorously tackling (rather than ignoring or even denying) the prevailing corruption, which is seriously undermining economic and development prospects. This corruption often results from excessive discretion in decisionmaking and lack of accountability. Minimising opportunities for corruption, and being seen to apply real penalties even-handedly on perpetrators, whether junior clerks or ministers, to provide an effective deterrent effect, is critical;
- providing (i.e. largely maintaining) adequate all-weather roads and other essential infrastructure, including reliable and affordable telecommunications and utilities (such as reliable power);
- ensuring stable and internationally competitive investment conditions,
  minimising bureaucratic bottlenecks, enforcing valid contracts and title;
- providing universal and practical education and accessible health services, required for a healthy and skilled population, able to meet the demands of the private and public sectors, including the needs of the majority (themselves) who will remain in the informal economy.

The State's role (including executive government, but also Parliament and legal/judicial services) is to set the ground rules and concentrate on providing those public goods and services which are the State's responsibility, like policing, road and other transport infrastructure, essential education and health services (including HIV/AIDS prevention and treatment), plus certain specialist functions like quarantine, applied agriculture and medical research and information dissemination. Many of these functions are best achieved through partnership arrangements, as with churches or organisations like PNGSDP, or, in some cases, contracting out functions, like urban refuse management or running major port or airport facilities and utilities commercially.

It is not the State's function to deliver all required goods and services themselves. In fact business should be left to the private sector, which is better geared to perform this activity efficiently. Most state-owned enterprises, whilst somewhat more profitable now, have been abysmal failures for years, despite their market control, largely as a result of appointments of unsuitable political cronies to top management and board positions, but also from lack of accountability to their customers or potential clients. Genuine competition is the strongest impetus for performance, and there is simply no justification for the State to retain monopoly control of services like phone/data, internet and mobile telephone services, particularly when they've been performed so badly and undermined the country's development (including economy and the community's welfare) for so long. It remains however a State function (through ICCC) to ensure that competition prevails, and that monopolies are avoided, as far as possible, including preventing any replacement of inefficient state-owned monopoles by privately-owned ones. In the few instances where monopolies (or monopsonies) are inevitable for the shorter or medium term (e.g. owing to the major investment entailed and currently limited market), the State retains its obligation to participate in market oversight, as with pricing formulae, to protect the interests of the consumers (and suppliers with monopsonies).

With greater local equity capital available, notably belonging to PNG's own labour force through superannuation funds, there is now little or no justification in the State retaining commercial service enterprises, and these long term PNG investors should also be encouraged to contribute needed capital for the provision of infrastructure and utilities, where this can be done on a sound commercial basis, with adequate security and within the prudential limits.

The State must also ensure effective public accountability over the use of its powers and public resources. This requires transparency in its own decision-making, issuing of licenses and permits, and use of funds, through prompt audits, oversight by the respective public and community watchdogs (including NGOs like TIPNG, CBOs, church organisations) and accountability to Parliament and through Parliament and the media to the wider public. Public awareness of processes and tracking of fund release and expenditure from Waigani right through to districts and LLGs is essential for effective planning and implementation, of local infrastructure and services needed by the local community and small business.

As government exists to perform certain functions for the public, there is little justification for public sector material to be secret or confidential. In a few countries, like Switzerland, decisions are increasingly being made directly by the public, through referendums. This is a slow and unwieldy process and impractical, for the time being, in PNG, but the basis of democracy is merely that the public's authority is merely delegated for practical reasons to MPs and government. Decision-making, whether at the level of licensing authorities or even Cabinet, should be open to scrutiny by Parliament and the public; this includes forestry and fisheries Boards, and (if it is to be retained) the Land Board. The Lands Department has for years been a major impediment for business (and the wider PNG public). It is reputed that "decisions" from bogus Land Board meetings,

which never even occurred, have been minuted and gazetted, allocating the country's limited alienated land portions to disreputable businesses, mates and leaders.

The whole land administration system must be cleaned up and its workings made transparent and accountable. The recent Lands Minister, Dr Puka Temu, made some headway in this, but the reforms need to be pushed through firmly and consistently, with a parallel rigorous inquiry into the widespread abuse of the country's limited alienated land resource over recent years, and appropriate penalties (including potential forfeitures) applied for abuse. Whilst constructive progress has been made by some communities, notably in Lae, towards formalising customary land use arrangements (in that case negotiated with settlers), and the use of customary land for some agricultural projects (with title retained by the landowners), until there is greater credibility in administering the relatively diminutive area of land under State title, little public faith can be expected with respect to potentially formalising transactions related to customary land (even though title will remain with landowners) or any wider land reforms.

The public sector is there to serve the community (including private sector clients) not (except in relation to specific laws and standards) to oversee them. A rigorous reform to make public sector institutions answerable and user friendly is essential. In some cases functions, even issuing some visas (as with Australian electronic visas), can be delivered by private operators (like airlines). Ensuring accountability of these Departments and Statutory bodies, however, requires that the watchdog bodies (including the Public Accounts Committee) are fully operational, with adequate funding and support, and penalties are revised to have a real deterrent effect.

Improved information services, the sharing of plant and equipment between agencies, particularly operating in rural areas, and improved mobile and internet services extended into the rural areas (provided as a result of increased competition) will enhance business, financial, health and education services into rural areas, including reducing the need for rural teachers to periodically go to town to chase their pay (and not return), improve educational opportunities and enable farmers to trade their crops and livestock. Such changes have been happening all around the world and even across the Pacific, but despite the reforms of 1999-2002 and subsequent the economic stability and growth, it's as though PNG has been held back with redundant systems, which the rest of the world has long dropped and moved on. PNG needs now to be more reformist and determined to shed the straight jackets restraining the country, its business sector and its people.

Confidence in State institutions is rock bottom with the private sector and the public, despite the integrity and dedication of many individual public sector employees, at all levels. Government seems to exist to serve itself and its mates, dishing out contracts and titles for scarcely apparent services to the public. Now is the time to demonstrate to the public that the systems can be made to work, with State responsibilities performed more efficiently, with greater integrity and accountability, and that abuses actually will be addressed, penalties meted out and the offences not always brushed under the carpet – including for "big men", who've acquired prime land for nothing, or won grand

infrastructure projects without tender, or helped themselves to superannuation or Investment Corporation funds in the past.

These are some of the challenges for the new government, which can too readily slide into old ways if not kept on its toes by the media, watchdogs, private sector organisations and wider civil society. The country needs efficient local level government and administration, providing community services and infrastructure, not further abuse of district grants for unaccountable project activities. Getting into government must be about meeting the country's needs and giving it new direction and hope, by making systems work, not about recovering election costs, or rewarding supporters (of whatever skills or merit) with appointments and other largesse.

The government needs to get the National Roads Authority (long sitting in the sidelines) functioning; proceed with public sector reform to cut overheads, and stop incessant interference, for example in the agricultural institutions, consistently applying the new appointment and dismissal procedures, enabling Statutory bodies to appoint and retain top calibre public sector managers and boards. Dame Carol Kidu's valiant efforts in supporting the Informal Economy (including women and youths) to gain access to needed economic opportunities, including practical training and markets (and by implication avoid illegal alternatives), must be actively supported by government (including local authorities) and the private sector, whilst entry from the informal sector into more formalised business, with associated greater access to credit and other benefits, must be simplified, and not entail significant administrative or other hurdles. The microfinance industry must continue its solid progress, with sustained support and oversight from the Central Bank, and easy transition available to formal banking arrangements, whilst the renamed National Development Bank must be subject to full banking standards and scrutiny, and progress towards operational autonomy from government and politics.

Whilst the application of gentle pressure/encouragement by government with respect to major desired investments, notably LNG development, has some merit, imposing itself (or its associated investment vehicles) as active players in the market, or striking agreements with apparent minors, as a mechanism to arm-twist major players, controlling greater capital and resources, is fraught with risk, especially when the State has access to limited professional or independent advice. It would at least do well, in this case, and for other policy issues, to ensure access to impartial professional advice, and avoid undue dependence upon advice provided by vested interests, or sycophants.

Hopefully, PNG will be able to look to a bright economic future over the next five years and beyond, but that requires that government focuses on its core functions and performs them well, and helps create a sound, though competitive, enabling environment for the private sector (including small agricultural producers and members of the urban informal sector) to prosper and generate sustainable growth with widespread employment and income earning opportunities.

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