

## **No room for Complacency: Time to stop Fudging or throwing stones and to wake up to the problems and put PNG's own House in order, tackling Issues and Outstanding reforms**

Papua New Guinea has long experienced a dual economy, initially between the estate sector and the rest of the population. From the 1970s mining and 1990s oil enclaves developed, supporting a growing urban population. Government initially discouraged permanent urban settlement, but the hard kina policy and subsequent fiscal indiscipline and under funding for infrastructure and services in the provinces and rural areas, encouraged urban drift, with educational, health and income earning opportunities in rural areas squeezed.

Now we have a few bubbling urban centres and service industries, buoyed up by current and prospective enclave mining/hydro-carbon industries. Despite optimism in parts of the business community, there is great frustration in much of the population, feeling forgotten in the apparent narrow –based economic boom and concerned over government's readiness to side-step procedures (land, labour and environmental) for selected developers. Some concerns are widely shared, including within parts of the private sector more dependent upon public goods (including roads) and concerned to retain professional staff drawn to wealthier enclave industries (notably LNG).

Unfortunately, some in government seem unaware, reluctant or too entrenched to recognise current reality. They cite recent high economic growth rates and the limited impact of the Global Financial and Economic crises upon PNG. It's true that growth has extended into many sectors over recent years. Yet this growth was largely the result of favourable global commodity markets (including in agriculture), combined with some fundamental reforms driven by the Morauta Government early this decade, plus fiscal restraint under Treasurer Philemon, which enabled some refocusing of expenditure. Yet apart from oil palm and cocoa, the increased agricultural earnings, for example, are not reflected in increased output.

The Morauta Government provided reforming zeal, to transform the economy and improve governance, including the forestry sector, with international assistance. This was desperately needed following years of economic anarchy in the mid-late 1990s. Some of their actions and performance was contradictory, but at least they set a firm economic, social and governance reform agenda, crucial for PNG's sustainable development.

Since 2002, apart from adjustments to mining investment conditions (inconsistently applied, with some exclusive tax holidays) and fiscal management reforms, leading to the *Fiscal Responsibility Act* and associated medium term Strategies, the only major reforms implemented have been allowing, rather uncertainly, mobile phone competition, adjustment to appointment processes, independent competition watchdog operations, inherited from the previous government's reforms, and reduction of inter-provincial inequity in budgetary allocations. Other useful reforms, notably for Land administration are yet to be implemented. Commitments under the MTDS, such as to support agriculture (e.g. through the Green revolution policy and NADP), infrastructure (through the Development Budget) and Districts (notably under the DSIP) have been undermined. The few reformers within the Government, who see the writing on the wall, seem to have inadequate political (and bureaucratic) backing to push through the massive changes needed for Government to contribute rather than be a deadweight to a productive and inclusive economy and society.

Whilst the private sector is the engine of economic development and innovation, even the biggest enclave industries, but particularly other sectors and smaller businesses, depend upon government fulfilling its role. The rural and informal economy, and wider society requires government to perform, whether directly or outsourcing, or creating conditions for private provision of former public services. Most long established businesses recognise the need to follow rules, avoid shortcuts and contribute to the wider community, whether fully paying taxes, minimum wages and providing other local social support. They recognise that bypassing processes, whether skipping proper genealogy studies, or following land laws, is counter-productive, even if corrupt demands and bureaucratic bottlenecks increasingly handicap prospects, (including loss of business from rigged tenders). Other businesses, often with shorter term horizons, unfortunately seek, and sometimes gain, temporary advantage from by-passing PNG's laws and procedures.

However, government's deficiencies are now seriously threatening economic and social prospects, even for some major projects, upon which government is holding such hope. It's about time those more myopic leaders stepped out of the complacency and ivory towers and recognised reality and start make some real positive changes, or step aside for others who can. The country doesn't need a string of major LNG and mining projects all starting simultaneously. Major projects should be planned properly and phased to provide valuable revenue and other benefits, rather than rushed haphazardly, unduly distorting the economy, nationally and locally (including from un-absorbable revenue). Some wealth is better stored in the ground for the future than in tempting Trust Funds, at least until suitable technology or processes are in place to extract it safely (as with deep water oil drilling in the US now) or transparent national and local investment and governance systems are functioning (including transparent Sovereign Wealth Fund-s).

Vision 2050 is a useful exercise, but requires further consultation to refine it and gain wide public ownership, rather than have it imposed upon an uncommitted public, and it must be dynamic rather than entrenched. A further Medium Term Development Strategy is needed, but must be practical and entail measurable outcomes, whilst Planning's new Strategic Development Plan smacks too much of unrealistic former Eastern-block plans, formulated by central planners lacking accurate data or realistic forecasts, let alone coordination capacity.

So what's the situation now? Government systems have widely collapsed with little being done to address them. The accumulated (windfall) savings of the commodity boom years, which should have funded some valuable restoration, have apparently been largely exhausted with little output. The Finance Inquiry reports hundreds of millions of kina in funds lost in Out-of-Court settlements, and payments to a law firm, reputedly exceeding the Health Dept allocation for three years. Western Province wants control of the relatively well-managed (if ponderous) PNG Sustainable Development, despite little evidence showing from the province's own billion kina provincial benefits from the mine, whilst local infrastructure and services funded directly from OTML, PNGSDP and churches, seem more widespread than from the Province itself. Only 5 Government institutions from about 1,000 gained the Auditor-General and PAC's pass-marks for financial reporting, and most according to PAC show little concern over accountability.

One of Government's primary roles, of providing transport infrastructure, continues to deteriorate. There's continued talk of new roads, but existing roads, jetties and airstrips are so lacking maintenance that costly reconstructions require restoring well within their expected duration. The

many excellent provincial Works Managers admit receiving little/no maintenance funds from the National Government for National Roads. The limited funding for National road maintenance and restoration comes almost entirely from donors (notably AusAID and ADB), with Provinces chipping in, but leaving little funding for provincial assets (with only about half the former 350 airstrips now usable). So where have all the funds reported in the Budget for roads gone? It seems, substantially to some politically selected projects, managed through the Development Budget, and local projects under DSIP.

A recent survey in 9 Districts, suggests that (except in a few Districts) the bulk of services/projects are provided through churches, NGOs and donors, with the DSIP funding, if present, largely provided for facilities in the immediate vicinity of the local Member support base (sometimes entailing businesses associated with the MP). Strong preference prevails in rural areas for a fairer and more even distribution of infrastructure and service funding, notably through LLGs rather than the JDP&BPC system, which continues to be widely distorting and unaccountable, adding to unavailable recurrent costs rather than meeting local needs or implementing local plans. Whilst better designed systems can be abused, unsuitable systems, like JDP&BPC and DSIP (as applied), are sometimes administered soundly.

At a recent forum a senior official stated that with the major prospective revenue from LNG (late this decade), Government must be ready to “kill all its sacred cows”. It’s true they should be rigorously reviewed. The Morauta government starting the process, if clumsily, and with inadequate consultation or explanation. We must restore, replace or abolish public sector institutions and functions, contract them out, leave them to competitive (but regulated) markets or long term PPPs. Many government institutions functioned better in the past, but have collapsed from lack of operational funding, training, ongoing staff replacement and management politicisation. Some valued institutions could be revived promptly, given political commitment, but others, like Lands, are unaccountable and widely distrusted, requiring new, publicly accountable, service-based mechanisms.

Many sound recommendations have been provided during consultative forums, reviews and other mechanisms, including Budget Volume 1 itself) to address government’s deficiencies. These are largely gathering dust and ignored by a government, prone to deny or ignore growing problems. Whilst attention is upon future revenue from extractive projects, current priorities are being ignored, like collapsing infrastructure and services. Progress could be achieved through addressing the massive waste and corruption and dropping known deficient systems (including politicised DSIP), or this generation’s legacy will squandering the nation’s resources, whilst failing to open opportunities for its population.

AusAID’s major funding of managing contractors and big fees for advisers has featured large in the Australian and PNG press in recent days. A review of Australian and other donor programmes by donors and recipients, notably PNG, is overdue and should be routine. More focus is needed on strengthening domestic capacity to run the public (and private) sector into the future, trimming technical assistance fees and overheads where possible, utilising appropriate staffing mechanisms (including through NGOs, ‘volunteers’, teacher exchanges etc), better consultant screening, more direct institutional support, rather than automatically managing contractors. Against that, AusAID (and other donors’) portion of funding of the PNG Budget has diminished proportionately over

recent years, with the Budget dominated by the PNG Government contribution, including over half the Development Budget. Yet, across the country core infrastructure and services are provided by donors (especially AusAID). This is wrong and unsustainable, but the fault is largely the PNG government's, failing to plan and manage PNG's Public funds accountably. Donor funds, (like much mining/ future LNG revenue) should be used to invest, restore and upgrade, including (or especially) in PNG's human capital. Without these donor funds now, many of PNG's services and institutions, including much of the provincial and rural infrastructure, would collapse or disappear. The AusAID-PNG partnerships, as for education, move in the right direction, but whilst all donor assistance must be better coordinated and more accountable to both their own population and PNG's, it is PNG's own Budget at the National and local level which is most in need of prioritisation, improved management, greater transparency and accountability to PNG's own population. These are PNG's public funds, not the Government's (who manage them in trust), or the respective MP's, and Parliament is there to reflect public interest in legislating and overseeing the Executive Government, not to rubber stamping legislation on Friday night without reading it thoroughly, or public consultation, including in their own electorates!