

## **Immediate Budget Priorities**

2007 National Budget preparation is well underway. Treasury has advised Departments and agencies their expenditure ceilings based upon forecast revenue. This week will also see a mini-Budget, partly to authorise over-expenditure.

The achievements of the current Government include the introduction of a Medium Term Development Strategy and strategies for fiscal management and debt management. The Central Bank was granted autonomy over monetary management during the previous Government's term, and supervision of the (formerly abused) superannuation funds. Although management of many government institutions (and provinces) remains poor, characterised by policy inconsistently, nepotism and corruption, nevertheless improved macro-economic management, combined with fortuitous commodity export prices, have allowed PNG a positive, though still inadequate growth rate. Exchange rates have been stable, borrowing rates finally affordable and market prospects and confidence generally improved, encouraging increased production, earnings and renewed investment, both by large and small investors, including informal sector participants,

The investment and growth is, however, largely concentrated in a few industries and towns. Despite being the fourth year of positive growth it remains barely above the population growth rate, leaving the majority still going backwards, particularly those with poor access, and the disadvantaged in the urban areas. It is critical for PNG's social and economic prospects and cohesion, not only that the growth rate is increased, in relation to population growth, but that opportunities are spread widely through the community and economy, for people to better utilise their talents to improve their own lives and contribution to society.

The private sector (including informal sector) must be the driving force of growth. This entails the State getting off investors' backs, freeing the private sector to do what it does best, i.e. run business, whilst concentrating its resources on priority functions which the State must perform. The State has major functions to perform, apart from establishing sound and stable macro-economic conditions, notably provision of reliable transport infrastructure, effective health, education and training and law and order services, plus planning, research, extension and oversight functions. Many of these tasks lend themselves to public-private partnerships, entailing outsourcing service provision or private investment, including by superannuation funds in roads, ports and airports. Although the social and economic impact is severe when communities lose their transport access, reforms, including operationalising the National Roads Authority, have been slow.

There is no justification, for example, for charging copra growers large levies for a virtually redundant service, or police harassing produce sellers seeking to make a modest, legitimate living, or government continuing to own and control inefficient state-owned monopolies, keeping costs high for consumers and suppressing potentially viable user industries. Rather, government should concentrate on facilitating legitimate business

activities, including training (e.g. on food sanitation) and providing suitable venues for such activities.

The 2007 Budget and forthcoming mini-Budget must concentrate upon progressing the reforms made, particularly by the former government, and sustaining the sound macro-economic management achieved by the current government. The business sector and public have been unsettled by the removal of the former Finance and Treasury Minister, widely considered the architect of the current firm economic management and providing the steady hand over recent years, despite incessant pressures to spend and borrow. Expenditure control in 2006 has been slipping. It is widely recognised how easy it is in a pre-election period to let caution to the wind and throw funds at hair-brained projects and arrangements to help secure re-election, at great cost to the country.

The Government now needs to demonstrate its responsibility, reassure the public, private sector and development partners and keep the lid firmly in place. It needs to stick to its Budget Priority Principles, notably: - living within its means, with an affordable and sustainable budget (even if commodities prices decline); not adding to medium term debt; expenditure being consistent with agreed national and sectoral priorities; government sticking to core functions; and providing a regulatory framework to encourage the private sector. The administrative reforms needed to implement the strategies have been progressing tortuously slowly. The priorities for 2006 and 2007 must remain: - keeping public expenditure down, ensuring renewed private sector investment and activity is encouraged, not displaced; reducing still high public debt levels (which remain a threat if/when commodity prices fall); and refocusing public expenditure to priority public goods and services. Any increased expenditure above the original 2006 Budget, based upon above-forecast revenue, must comply with these priorities and not foregone in unproductive giveaways. The first quarter's over-expenditure exceeded extra revenue, and if continued over the year would result in a serious budget deficit, which could readily become unmanageable, especially if external conditions deteriorated. Self-restraint is required.

The priorities specified in the MTDS are: income earning opportunities, restoration and maintenance of existing infrastructure, basic and informal adult education, primary and preventive health, HIV/AIDS prevention and law and order. Expenditure should be progressively targeted to these priorities. Basic services also comprise the Millennium Development Goals to which PNG has committed itself. The recent NEFC study has shown, however, how far off we are in providing critical basic services and infrastructure needed by communities for their economic and social development. It also shows the major disparities between provinces, although recognising that some provinces are much more effective in utilising their resources and generating economic opportunities than others.

Whilst the country is over-governed, with a need to rationalise the system (many favouring removing provincial governments and reinforcing more answerable local government), the immediate priority is to make the current system more operational. This entails greater awareness, transparency and answerability over budgets and expenditure,

and addressing clearly established needs and priorities, notably at the local level. The public requires greater ownership over the process, with public funds clearly seen as such, and not as “Member’s funds” or “Governor’s funds”.

With all districts crying out for basic local infrastructure and services, including access to information, there is no room for extravagance. Progressing towards more consistent expenditure for such services, based upon the NEFC needs assessment, and ensuring all LLGs receive funding for core functions, would be solid progress. The district services improvement project, complementing the District Treasury roll-out, enables public servants in the districts to become operational in performing basic functions, assuming effective local and institutional oversight. Public servants, or contracted service providers, are trained and capable to implement, if properly managed. The current system of discretionary district and provincial funds is too open to abuse, and widely abused. Elected Members are representatives and lawmakers and, notably Ministers, part of the executive, but they are not implementers or fund administrators. These funds should be re-allocated for core services, which are currently so inadequately funded in most districts. The mini-Budget and 2007 Budget should advance this reallocation and certainly not permit increased allocations to loosely managed and sub-optimally utilised Discretionary funds. PNG simply cannot afford such extravagance.

PNG’s economic prospects for 2006 are positive, though still inadequate to make an impact on most people’s lives, achieve the MDG goals, or reach Fiji’s current per capita income for decades. That requires more rigorous and prompt reforms. The tangible but hard earned achievements of recent years can be squandered rapidly, and confidence severely undermined, if the Government allows fiscal discipline to be relaxed now. Commodity prices also might be less generous around the corner.