

## **Getting it Right: - Delivery of commercial and public Goods and Services – through Competition, Transparency and effective Oversight – including in the long-forgotten Agriculture Sector**

We live with choices, although some have more than others. The wealthy or educated have more choices than those with limited resources or skills. We cannot determine the future, but can influence our prospects through choices made now. Choices reflect our perceptions, including of risk. Shall we take insurance or diversify our crops, spend now, save or invest for the future? Spending on further education, planting a crop or pruning tree crops are all investments for the future, entailing a choice to forego spending or leisure now, to improve opportunities or reduce future risks.

Businesses (formal or informal) and governments face similar choices. Medium-term strategies and annual budgets entail choices between priorities, and between immediate and future needs. Government has a responsibility for setting suitable investment conditions for the private business. It must also determine (hopefully in consultation) what implementation functions to undertake itself, and which are better performed by the private sector or civil society.

Experience worldwide has demonstrated that government should leave running business to the private sector, which is better at spotting opportunities, assessing risks, restraining costs and being self-sufficient rather than protected by the State. The State's role is both helping ensure suitable conditions for economic activity, and delivering those services which are the State's own responsibility.

State-owned enterprises (SOEs), including PNG Power, Telikom, Air Niugini, Ports PNG and former PNGBC, all survived as unaccountable monopolies, (or partial monopolies), with the former Copra Marketing Board (CMB) holding "monopsony" control over buying copra. By the late 1990s they provided dreadful services, with unqualified and unsuitable boards and management appointed, and money squandered on overseas trips and other unjustified expenditure. Despite market dominance they were largely insolvent, although some managers and board members thrived, some even boasting full-time chairmen. Self-serving had long replaced the principle of SOEs serving public or producers' interests.

Prime Minister Morauta was correct when stating in 1999 that if leaders cannot resist abusing these organisations, it's better they're owned and run more efficiently by the private sector. What he partly overlooked, however, in pursuing privatisation, was the other key ingredient for efficient commercial services, namely competition.

Private businesses also need such market pressure to perform, although (discreetly) also craving monopoly (or monopsony) control. There may be some natural monopolies, with inadequate markets for more than one enterprise to operate viably, but generally there's room for competition, including in small-scale power supply.

Localised monopsony buying arrangements may in some cases provide reasonably competitive producer prices and service, as with some cooperatives or agro-nucleus enterprises, where clear mutual obligations prevail, such as through an agreed pricing formula, as with oil palm, designed to ensure fair prices to producers and reliable supplies for the mills. That formula, however, requires mutual agreement, an impartial referee and routine monitoring.

The Somare Government halted privatisation, seeking instead to improve the SOEs' viability. Some certainly regained profitability as the economy grew and in some cases under improved direction. But service has remained almost universally poor, high cost, unreliable, and, as with telecommunications, restraining PNG, whilst the rest of the world (including developing countries) enjoy a new era of affordable communications, with rural teachers banking on mobile phones, schools accessing world-class internet-based educational material and small farmers using phones for trade.

What's recently boosted some SOE services? Certainly not improved oversight! It's competition, or its threat. Air Niugini has been faced with it on some international routes, and feared such prospects back home. So some prices have been cut, though reliability remains lagging. Telikom finally woke up to the need to invest to survive in the face of alternative suppliers, firstly in mobile services, whilst also rushing to government for protection. Extraordinarily, the Government made a desperate attempt to defer the competition, against the public's interest.

Markets require a referee with real authority, to ensure fair competition prevails. No-one should wish to see Telikom or Air Niugini eliminated by new competitors. Existing suppliers may change ownership or be replaced, but it remains critically important that competition prevails. Unduly cut-throat competition can be harmful and safety standards must be assured, avoiding Indonesia's recent experience of budget airlines economising on safety.

The State retains many critical functions, including oversight of safety and standards, and delivery of certain "public goods"- notably infrastructure and essential services. These functions cannot generally be privatised, although some can be outsourced, and certainly performed more efficiently than now, including through re-introducing merit-based promotion. Effective checks and balances, transparency and public accountability must substitute for competition.

The Government recently introduced improved procedures for appointment and dismissal of public sector chiefs, but has widely ignored them since. Various appointments to Boards and management positions involve people with major conflicts of interest or subject to probes. Inquiries have been dropped or results not released. Leaders state they've been found innocent, when in reality cases haven't been pursued. Firm penalties for several high profile miscreants would have a major deterrent effect, and start erasing the perception that malpractice is rewarded. The penalties themselves need updating.

A sector desperately overdue for positive government attention is agriculture. Recognised as the backbone of PNG, for years it's only received lip service. Whilst NADP is a disappointing document, an agriculture plan is overdue. 2007 is half over, yet no agricultural funding has been released under the Supplementary Budget. The sector's institutions are long neglected. Commodity institutions have been almost entirely self-funded by producers for years. Established to be answerable primarily to producers, successive Ministers have tampered incessantly with appointments without any consultation with producers, even demanding vehicles and other benefits, despite government failing to provide inputs.

The agricultural institutions need rationalisation, with some being merged to share infrastructure, administrative and board costs. They require greater accountability, especially to producers, but they also require significant long-term funding support from government if they are to perform effectively.

In 1997, under pressure from its special economic adviser, the then Government planned to discontinue funding quarantine and much agricultural research. We make choices how funds are spent. Quarantine is insurance to reduce risk, whilst applied research, if well-run, is critical for long term viability and competitiveness of our agricultural industry.

We may dislike the inconvenience (and cost) of quarantine checks, but the impact of new plant and animal diseases, or introduced species, can be devastating. The spread of cocoa pod-borer will inevitably have a massive impact upon PNG's valuable cocoa industry, which provides the main cash for lowland households, especially in the New Guinea islands. Major long-term funding is required now for the quarantine authority, NAQIA, and research and extension bodies, to control or adjust to this disease and other recent entries, prevent further introductions, undertake effective (longer term) research for main and alternative crops, and provide suitable farm management training for the changed farming conditions. Severely underfunded quarantine services (or research) are pointless. Their running cost should not be imposed solely upon travellers and trade, as many pests and diseases enter via fishing vessels, log ships or across land borders.

Whilst our State-owned utilities and enterprises must face competition, we must bite the bullet now and make our public services and statutory corporations – including agricultural institutions – functional and responsive to their clients, cutting duplication and waste, but adequately funded to perform their core functions.

Paul Barker  
16 July 2007