Papua New Guinea Private Sector Assessment (2014)—Policy Brief

A. INTRODUCTION AND KEY RECOMMENDATIONS

I. INTRODUCTION

This *Policy Brief*[1] summarizes the results of a private sector assessment (PSA) of Papua New Guinea (PNG) as it seeks to attract private investments and encourage market-based growth. It also discusses the major hindrances faced by businesses of all sizes, and offers key recommendations to leverage the private sector's potential to boost PNG's economy and provide long-run growth opportunities. The recommendations focus on current policies affecting private sector activities, and analyses policy adaptations that are recommended to place the PNG economy on a sustained, high growth path.

II. KEY RECOMMENDATIONS

The PNG government's development strategy of diversified growth stresses a larger role for the private sector, especially in energy and infrastructure. This *Policy Brief* and the forthcoming PSA provide the foundation for identifying reform priorities. Key recommendations follow. Since there is overlap between the various issues and sectors, similar recommendations might appear more than once:

Transform the role of the private sector	• **Support** the development of a vigorous private sector. • **Redefine** the state's role as facilitator of growth and confine its role to provider of essential public goods.. • **Adopt** tough structural reforms in competition, infrastructure, public enterprises, land and natural resources management, and the financial market.
Reform the finance and banking sectors	• **Strengthen** risk management policies, and establish a secondary debt market to more easily free up government securities during times of market stress. • **Encourage** competition in retail banking markets, by investigating potential options for introducing existing financial institutions, which meet the regulatory tests and standards. • **Define** the structure and operations of the sovereign wealth fund, and communicate intent with the private sector through ongoing dialogue and information dissemination. • **Encourage** more entrants into the foreign exchange trading market. • **Reform** the government debt market by lowering issuance costs for both government and the private sector. • **Reduce** minimum bid size, develop the Central Bank Bill Tap facility, and lengthen duration of issues. • **Strengthen** the Central Bank's repurchase facility. • **Progress** the secured transactions framework by implementing the Personal Property Securities Act 2011 (PPSA), and appoint a secured transactions registrar to advance the new registry (when operational), allowing it to record security interests. • **Conduct** a financial sector review to investigate key issues surrounding market reform.
Clarify the role of the state	• **Discourage** toughening of local content rules or labor restrictions. • **Develop** an overall privatization strategy which incorporates greater focus on public–private partnerships (PPPs). • **Establish** a rigorous system to monitor the results of the government's reform measures to address system law and order problems, including those impacting business and investment. • **Implement** clearly defined, accountable, and transparent governance reform and monitoring initiatives to mitigate fiscal risk to both public and independent agencies. • **Discourage** parliamentary discord, and restrict frequent and disruptive legislative and regulatory changes in policies and decisions. • **Expand** the current tax review to consider the role of land taxes in redefining land use for commercial purposes. • **Reform** the tax expenditures regime and remove the current range of concessions and exemptions (including tax holidays).

[1] Based on the forthcoming *[NAME]: Papua New Guinea Private Sector Assessment 2014*.Research was conducted in early 2014 by Saumya Mitrathrough the Pacific Private Sector Development Initiative (PSDI), a regional technical assistance facility co-funded by ADB, Australian Aid, and the New Zealand Aid Programme.

	• **Progress** the policy framework to support PPPs and clarify the nature of the concessions law. • **Strengthen** implementation of the Companies Act 1997 and ensure that the Companies Office has the capacity to effectively manage the registry. • **Simplify** the land disputes management system to allow greater efficiency in land use. • **Reform** the communal ownership and registration system, and strengthen the private sector's ability to legally enforce acquired land rights.
Promote, encourage, and enforce competition	• **Carry out**a comprehensive review of competition policy, and focus on methods to reduce multi-sector legal, regulatory, and administrative barriers to competition. • Through an appropriate knowledge and dissemination strategy, make theIndependent Consumer and Competition Commission(ICCC) Act 2002 provisions more accessible and easily understood in simple terms, clearly outline the existing range of recourse actions following infringement, and consider expanding the range of recourse actions available within the Act's existing parameters. • **Examine** the relationship between the ICCC and SOEs, and review the current regulatory contract format against best practice state-owned enterprise (SOE) performance-based indicators. • **Monitor** wholesale internet pricing arrangements, and ensure that equal access and fair pricing result from following the tariff schedule proposed in the draft National Broadband Strategy.
Continued reform of State-Owned Enterprises	• **Continue** to implement recent policies towards greater SOE commercialization, and target less political interference in the process. • **Articulate** expectations of dividend payments from SOEs, insist on higher rates of return, raise corporate governance standards to international best practice levels, and fully implement regulatory reforms. • **Enforce** greater contestability through increased private sector participation in providing services traditionally delivered by SOEs. • **Allow** private companies to bid for community service obligation (CSO) contracts. • **Clarify** the relationship between the government asset holding in the Kumul Trusts and the sovereign wealth fund operations. • **Consider** placing PNG's liquid and commercial assets into the sovereign wealth fund, and reduce Kumul Trust Holdings to domestic utility, infrastructure, and commercial company shares.
Increase focus on agriculture and agri-business as a major sector of the domestic economy	• **Integrate** agriculture and the rural economy in the current reform strategy. • **Increase** public policy and private and public sector investment focus on agriculture, fishery, and related activities. • **Actively** involve the private sector in designing and implementing policy interventions.. • **Increase** competition by stopping the practice of licensing operators in trading and exports, and implement licensing reforms to encourage entrepreneurial activity.
Address the crippling cost of inadequate infrastructure and inefficient maintenance services to the economy	• **Modernize** competition and regulation policies to allow the private sector to deliver critical infrastructure and manage asset maintenance services. • **Remove** government SOE asset_ownership limitations_to increase private sector participation in service delivery and asset maintenance. • **Utilize** PPPs to increase opportunities in infrastructure services delivery. • **Establish** and enforce long-term, performance-based infrastructure operations and maintenance contracts with local private companies.

B. ANALYSIS

I. ECONOMIC MANAGEMENT

An impressive growth record, but disappointing impact on poverty:Since 2004,PNG's economy has grown at an annual average rate of 6%, with per capita income reaching US$2,200 bythe end of 2013. Macroeconomic stability and reduced output volatility benefitted growth,which was powered by large external inflows into the natural resources sector. This has led to a large increase in formal private sector employment. However, poverty rates were stagnant between1995 and 2010. The country islagging on the Millennium Development Goals.

A fraught, but slowly improving business environment:PNG has one of the more difficult environments for doing business globally. A business environmentsurvey conducted in 2012[2] shows that business security (law and order) is a major constraint, with low confidence in law enforcement and the judiciary.

Government-business relations were weak, leadingto opportunities for corruption. Other clear constraints lay in infrastructure and services, government regulations and policies, legal frameworks, and the functioning of key public bodies such as the competition authorities, the company register and the securities commission. A number of improvements since the 2007 survey were noted, particularly in political stability and macroeconomic performance.

Transforming the role of the private sector:International experience demonstrates that turning the "resource curse" into inclusive, widely spread growth requires deep policy changes:

- The role of the state would need redefining to be a facilitator of growth, allowing an increasingly vigorous private sector to develop;
- Governance would need to be strengthened with high and transparent, predictable standards in interactions with the private sector;
- Tough structural reformsneed adoption, especially in public enterprises, overall competition, infrastructure, and land and natural resource management; and
- Public investments in human capital and infrastructure need to be increased.

Commendable development vision, but little action:As early as 2007, the authorities had declared that promoting private sector-led growth was central to their reform aims; however, actual performance has not delivered on these.Little governance improvement has occurred, along with the continued heavy regulatory burden,a strong bias towards resource and credit allocation to state-owned enterprises (SOEs), and weak competition. Also, policy options being considered for small and medium enterprises(SMEs)have worrisome elementsconcerning reserved activities.

Fiscal stance has supported the private sector.A rules-based approach to fiscal policy has stabilized the economy, encouraged capital inflows, and kept inflation down. In the near future,the large increase in output and exports in 2015 related to the liquefied natural gas (LNG) project will delivera (favorable) shock to the economy. FutureLNG projects will deliver in the 2020s, leading to similar shocks to output and fiscal revenues. PNG'sprivate sector can only thrive if it has confidence in stable, predictable, and prudent fiscal and debt policies, as well asin the Government's ongoing commitment to open trade and capital arrangements.

The critical role of a sovereign wealth fund: Sharp, unexpected movements in the real exchange rate or a sustained real appreciation in the kina (the so-called "Dutch Disease" effect) deter both domestic and foreign investment in the non-resource sectors. Investment in the traded goods and service sectors is also discouraged by large domestic absorption of hydrocarbon rents. These need to be smoothed by a strengthening of rules-based fiscal policies. Therefore, a sovereign wealth fund'sdesign and operations become crucial. Such a fund should: (i)stabilizeand sterilizevolatile foreign earnings; (ii)generate fiscal savings; (iii) diversify investments to earn higher returns and; (iv)ensure that future generations benefit from current natural resource extraction.

II. REFORMING BANKING AND CAPITAL MARKETS

Sound banks, but reluctant to lend.The banking system's soundness has been an important stabilizing factor in the PNG economy. Banks have securedeposit-based funding, high profitability, and adequate capital ratios. Yet, there are indications of insufficient competition and the system is highly liquid. Provisioning is more than adequate. The spread between prime lending rates and the deposit rate is large, recently ranging between 10–14%. However, banks are reluctant to lend, credit to gross domestic product (GDP) ratios trail behind comparable countries', and capital markets are poorlydeveloped. ***Risk management needs strengthening.***The financial system's high degree ofliquidity reflects profitable lending opportunities. But there are other factors affecting risk. No secondary market in government

[2]Institute of National Affairs. 2013. *The Business and Investment Environment in Papua New Guinea in 2012: Private Sector Perspective—A Private Sector Survey.* Port Moresby.

Comment [SJO1]: Source for this? World Databank has GNI per capita at $1,790 (end 2012), and GDP per capita at $2,184 (also 2012). Where is this information current at end 2013?

debt—partly reflectingbanks' tendency to hold such debt to maturity—means that government securities are not easily liquidated, especially at times of stress. The deposit concentration is also significant;deposits are mainly sourced from companies and government trust accounts which could either flee or convert to foreign currency. Retail deposits are low, at about 20% of total deposits. These factors suggest that banks should hold capital ratios well in excess of regulatory requirements, whichcould be raised as a result of these findings.

Encouraging competition in the banking sector.The rate spreads, high fees and charges, and high margins on foreign exchange trading innear-monopoly conditions all suggest a weak competition environment.PNG's central bank, the Bank of Papua New Guinea (BPNG), recognizesconstraint and is attempting to attractnew domestic and foreignentrants into the market. Concurrently, BPNG could also investigatecompetition in the banking markets with outside expert assistance. Potentiallyconvertingthe Teachers Savings and Loan Society into a commercial bank could be encouraged, provided it met all the tests for a deposit-taking institution. The recent move bytwo finance companies to enter the foreign exchange trading market should also be supported and facilitated.

Reforming the government debt market.The current debt market consists of a small number of participants, mainly the commercial banks and the two major superannuation funds. Widening participation is the key to financial market development, by lowering issuance costs for both government and the private sector. A more developed government debt market will also increase the supply of investible resources to the economy,by attractingforeign capital.

The first reforms should center on the primary market. The existing number of dealers is too narrow and the entry conditions, such as the minimum bid size, too restrictive. Given the strong incentives that banks and other current participants have to hold paper on their own books, stepsneed to be taken to permit retail bidders(or the non-bank public, in general)to have a fair chanceto bid. An early step could be to reduce the minimum bid size, followed by a further development of the central bank bill tap facility. Lengthening the duration of issues would also be helpful.

The second set of reforms concern the secondary market.Current liquidity and trading are low, largely due tolack of competition, the financial system's concentrated nature, and bank behavior.Strengthening repo facilities is essential for secondary market development, as it broadens the demand for securities and increases trading liquidity.[3] It would also permit banks to be opportunistic in trading from their books, knowing that sales would be repurchased at fixed, known prices. In time, interest rate swap markets could be established.

Access to finance.PNG faces a number of barriers toimproving access to finance and financial services.

(i) **High levels of crime and corruption** make cash movements infeasible in most of the country, and raises transactions costs for all financial institutions.

(ii) **Gaps in infrastructure**—particularly poor quality roads and transport links, and electricityshortages—significantly raise the costs of doing business.

(iii) **Absence of clear titles to property**, particularly land, and difficultiesentering into reliable leasehold agreements with traditional owners exacerbate investors'problems.

(iv) **The secured transactions framework is yet to become operational**, increasingdifficulty in accessing business finance.

Financial inclusion has taken a giant leap over the 3years since 2011 with the spread of mobile money services, enablingsavings and deposits, as well as payments.

Using moveable property as loan collateral isan important means for the private sector to access finance for business operations. However, delays in implementing the Personal Property Securities Act 2011mean that the new electronic registry (which is nearing completion) will be unable to record security interests until the governmentprogresses implementation arrangements.

A financial sector review is needed.Itcouldfocus on issues central to re-energizing the financial sector:

- Measures to promote competition;
- Risks and crisis management responses;
- Management of excess liquidity—short-term responses and institutional reforms;
- Regulatory reforms on payments systems, particularly to promote financial inclusion;
- Reforms in the primary government debt markets;
- The development of a secondary government debt market—policy and institutional reforms;

[3]The repo (repurchase) facility is a central bank tool for lending to banks using bonds as collateral that are then repurchased by banks at a future date at a fixed pre-agreed price, with the buy/sell pricedifference being the interest rate charged by the central bank on its loan

- Measures to promote private capital markets, corporate paper, and mortgage instruments—policy and institutional reforms; and
- The role of superannuation funds.

III. THE ROLE OF THE STATE

The PNG government's vision for development is based on the private sector as engine for accelerated, sustained growth.However, translating vision into policy reforms hasproven difficult.The state remains a dominant presence in the economy well beyond its traditional,widely accepted role as a supplier of public goods. Thetendency towards protection through toughening local content rules or labor restrictionscan greatly damage private investment prospects.

In the resource sectors, moves towards imposing requirements of "free" or discounted state equity would deter investment, if pursued.There is no overall privatization strategy. Some policy reforms towards greater private participation—such as public–private partnerships—are at an early stage. Experience has shown that success can take many years after careful planning.

Clarifying the role of the state is vital, so that the private sector has an explicitframework for making long-term and/orrisky investment decisions. The state should confine its role to providing essential public goods (defense, law and order, and justice) and essential services (education, and health). Unfortunately, the state performs these core functions so poorly that PNG's human development scores are disappointinglylow.
Issues with security and justice.Around80% of respondents in the 2012 surveyreported that law and order problems influenced their business and investment decisions.

Current reform measures are constructed around five goals: (i) improved policing, safety, and crime prevention; (ii) increased access to justice and just results; (iii)improved reconciliation, reintegration, and deterrence; (iv) improved accountability and reduced corruption; and (v) improved ability to deliver law and justice services.To ensure progress, the government needs to establish a tough system for monitoring results.

Governance is a serious hindrance to private sector growth.Public financial management particularly invites corruption, with some serious gaps in budget management and accountability**.** Governance capacity is weak on budget administration, public expenditure choices and quality of spending, and managingstate ownership in various assets. It is also weak inhow efficiently and fairly its regulatory functions are discharged.

Budget and public finance implementation reveal governance weaknessesand, while expenditure control processes do exist, violations appear routine.There also seemsto be significant unreported government spending—partly related to spending funded from external sources, and partly to resource royalties.Inadequate monitoring and reporting of public enterprises and autonomous agencies enhances fiscal risk.

Credible and predictablegovernment decisionsareundermined by discordand frequent legislative and regulatory changes in policies and decisions. Conflict of interest risksalso arise from the close relationship between politicians and business owners, and from many politicians' significant personal business interests.

The tax regime is well designed, but administration is weak. The regime itself is not a barrier to private sector development. Tax rates and rules (such as the rate of corporate tax or rules governing depreciation) are comparable to those incompetitor countries. The base is broad, but deficient tax administration is compounded by particularly weak enforcement.The government has established a tax review to improvethe system's competitiveness and efficiency, aiming to encourage investment and employment.

While there is a natural focus on capital and natural resource taxes, the review should also consider the role of land taxestowards encouraging the commercialization of land and developing well-functioning lease and sale markets. This would address a major constraint to the economy's growth potential: too-rigid customary land arrangements. The existing ways of effectively imposing a tax on resource rents—the state equity participation and the additional profits tax on gas earnings—need to be examined. In particular, government's ability to make efficient commercial decisions on equity participation, and the ability to manage it, needs closer investigation. A major area for reform is tax expenditures—the range of concessions, exemptions, and holidays provided to entice investments.

The commercial legal framework is the supporting foundation for all private sector activity. It establishes and safeguards property rights, provides the legal basis for contracting and exchange of goods and services, and defends contract sanctity. Problems are arising with the implementation of the Companies Act 1997,and with the associated registry managed by the Companies Officethrough the Investment Promotions

Authority.[4]The government has announced a policy framework to support the formation of PPPs, with the enabling legislation currently being considered by parliament. The status of the concessions law is important, as PPPS are expected to be delivered largely through concessions agreements.

Land.The private sector relies on security of tenure to establish, operate, and expand commercial activities.Secure tenure is associated with greater investment,greater savings,higher land prices, and(in some cases) more efficient use of land for agricultural purposes. Secure land tenure also enables private sector organizations to access finance more easily, but improving the ability to enforce rights to landiscurrently missing in moves to improvethe security of customary land tenure.While security of tenure can be enhanced through reformingthe communal ownership and registration system, private enterprises need the ability to enforce a right acquired from the traditional landowners to enjoy the full benefits of these rights. Finally, the land disputes management systemis overly complex; simplifying itwould greatly assist efficiency in land use.

IV. COMPETITION

Policies to promote competition in the economy have been strengthened over the past decade.Institutional and regulatory improvements includethe formation of the ICCC in 2002, regulatory reforms in telecommunications and the entry of private mobile telephone companies from 2007,and the planned role for PPPs. However, serious deficiencies inhibit competition, such as the high cost of financial services. Competition and efficiency are badly affected by poor or corrupt governance practices,including discretion in decision-making or in tax administration. Recent trends towards local content requirements and labor protection dilute competition, leading to country-wide inefficiencies in resource allocation.

A thorough review of competition policy is needed; it should be broad-based and encompass institutional reforms.Businesses have expressed concern that certain legislation adversely impacts and is detrimental tocompetition in various areas, and that administrative procedures are impeding businesses from entering and expanding in markets. Legal, regulatory, and administrative barriers to competition appear significant in some sectors.

Enforcing competition, preventing monopolistic or collusive behavior, and protecting consumer rights all require the type of strong, vigilant, and autonomous competition commission that is lacking today. The ICCC Act 2002makesinadequate provision for consumer protection; its competition provisions are expressed in dated and complicated language; and the range of recourse options available following Actinfringements is limited.

A further area for inquiry and eventual reform is the relationship between the ICCC and SOEs. SOEs declared to be "regulated entities" must comply with the terms of a "regulatory contract" issued by the Minister for Public Enterprises[5] or the ICCC. However, these regulatory contracts may not be serving their intended purpose. The ICCC is concerned that regulated entities can delay responses to draft regulatory contracts and "work"the system.Broader questions are how best to infuse greater competition in some industries (such as electricity generation and distribution), and address the natural monopoly element in some of these industries. Any future review should examine whether regulatory contracts are the most appropriate means of ensuring SOEs' high performance.

The legal framework regulating telecommunications providers has improved with the introduction of theNICT Act.[6]Wholesale internet access arrangements (through the introduction of PNG DataCo Limited[7])need monitoring, to ensure equal access for internet services providersand fair pricing models.Internet access and pricing is still concerning,with very low rates of market penetration (focused around Port Moresby) and high access prices. This situation is partly due to Telikom PNG owning the only licensed international gateway for internet services through its subsidiary, Tiare.If wholesale internet service pricing follows the tariff schedule in the draft National Broadband Strategy,the private sector should experience a decrease in the costs of accessing internet services.

V. STATE-OWNED ENTERPRISES

The SOE sector is a major source of inefficiency in the economy.It wastes capital, distorts market conditions, tilts the playing field against private investment, and imposes an implicit heavy tax on consumer welfare. It is sheltered by preferential low interest rates; the underlying return on equity is therefore even lower than reported. The corporate governance environment withinwhich SOEs operate is highly defective and contributes to poor commercial performance.

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[4]The Investment Promotions Authority oversees the operations of the Securities Commission of PNG, the Intellectual Property Office of PNG, and the Companies Office of PNG.

[5]The Minister for Public Enterprises oversees PNG's SOE portfolio.

[6]National Information and Communications Technology Act 2009

[7]In March 2014 the government established a new SOE—PNGDataCo Limited—as the wholesale provider for the new National Transmission Network (NTN).

Non-compliance with key elements of the Independent Public Business Corporation of Papua New Guinea (IPBC)Act 2002has been a problemfrom the outset, leading to weak governance and accountability. The IPBC has consistently failed to publish annual reports with audited financial statements, and corporatization has not prevented political interference in SOE operations.

There are two major impediments to efficient SOE operation:

(i) Regulatory contracts for monopoly service providers[8]are structured in a way that militates against realizing productivity gains. The most promising solution lies in greater contestability through increased private sector participation, backed by hardened budget constraints and no SOE bail-outs.

(ii) The SOEs have been obliged to shoulder a large community service obligation (CSO) burden, without any compensating fiscal transfers. Allowing private companies to bid for CSOs should follow a recent policy change towards greater SOE commercialization.

The proposed SOE trust structure has no clear direction, with many unanswered questions. The architecture of the Kumul Trusts[9] and their operations should be guided consideration of efficiency and governance gains. The Kumul Trust structure could represent an advance in fiscal responsibility and corporate governance,only if:

(i) The state intends to exercise a professional, arm's length oversight over its share assets,removing political interference and management;

(ii) Efforts are directed towards achieving higher rates of return through greater commercialization, using market principles and prices and removing all subsidies;

(iii) SOEs' corporate governance standards are raised to best practice standards; and

(iv) Regulatory reforms, including reforms of regulatory contracts, are implemented.

The state should also indicate its expectations and insist on appropriate SOE dividends, with thoroughly-appraised SOE investment plans financed through an appropriate mix of capital, borrowings, and retained earnings.

[8]As agreed with the ICCC.

[9] The Kumul Trust comprises Kumul Mining Holding Limited (including Bougainville Copper, Ok Tedi Mining Limited, and Ramu Nickel Limited), Kumul Petroleum Holding Limited (including the PNG liquefied natural gas (LNG) project), and Kumul Corporate Holding Limited (all IPBC interests).

The relationship between the government asset holding in the Kumul Trusts and the sovereign wealth fund operations needs to be clarified.Asset management should be seen in a unified context,as both the Trusts and the sovereign fund represent government wealth holdings. Placing the state's liquid and commercial assets in enterprises such as Oil Search, Ok Tedi Mining Limited, and the LNG plant into the sovereign wealth fund (as opposed to the Kumul Trusts) would be more efficient, so that they are seamlessly and professionally managed with the state's other foreign assets. These are essentially foreign exchange-denominated shares, as their underlying value—export earnings—arise from commodity exports in foreign exchange. Some of these sharesare quoted in foreign stock markets. It wouldbe advisable to shrink the Kumul Trust holdings into domestic utility, infrastructure, and commercial company shares, and transfer the resource-related SOE shares to the sovereign wealth fund.

VII.AGRICULTURE

As PNG's reform strategy is relianton private sector-led growth,it mustconsideragriculture and, more broadly,the rural economy (non-farm rural income, services, and infrastructure) on which 80% of the PNG populationdepends for their livelihood. There has been insufficientpublic policy and investment focusonsemi-subsistence agriculture, smallholder food crops, livestock, forestry, and fishery activities.

Public policy's role lies in strengthening smallholder competitiveness through a range of information and extension services, particularly technology and management. Complementary investments in roads and power are necessary. Active private sector (particularly exporter) involvementin designing and implementing policy interventions would ensure relevance and effectiveness.

Agricultural policies are another striking example of how public policy choices need to be re-shaped in PNG to sharpen future growth's private sector orientation. Two broad sets of policy questions need to be addressed:prices and intervention, and institutions. Though there has been a significant move towards price liberalization and greater freedom for farmers to sell or export their crops, intervention is still prevalent. The Copra Marketing Board retains a virtual exports monopoly, and the Coffee Industry Corporation has a history of banning sales. Licensing operators in trading and exports restricts competition, solicensing reforms to allow freer entry of new entrepreneurial talent is advisable. Negative effective protection against agriculture is also evident.

For institutions, the critical constraint is land regime and policies. Communal (traditional) forms of land holding, rigid tenure, lack of clear titles, and absence of land markets, all show thedifficulties in re-deploying land forthe most productive use. In a world of changing prices and inventive technologies, where the growth potential of an expanding agri-business sector can be large, this potential is being stifled. A further institutional gap is on knowledge use and disseminationrelating to strategiesand marketing.

VIII.INFRASTRUCTURE

The high cost (or absence) of infrastructureis a major contributor to the cost of doing business.The state—as the monopoly infrastructure provider—has failed to deliver the scale of needed services, the currently available services lack quality and are unreliable, and competition and regulation policies need modernizing to meet the growing economy's needs.

The government has developed sector-specific strategies that give a much larger role to the private sector;consequent reforms in competition and regulation are highly appropriate and needenacting.Much will depend on whether private sector investments actually occur.Clearly critical are the regulatory regime, confidence in policy stability, and the appropriate structuring of PPPs supported by a well-functioning concessions law.

Electricity policies and investments have been fragmented and non-strategic. The authorities intend to:

- Expand private provision;
- Rely on competition and reform regulation to assign rights to supply the grid or customers directly;
- Limit government to a facilitator and regulator; and
- Adequately fund CSOsto subsidize supply for below-threshold loads,mainly in rural areas.

It would be important to make markets fully contestable to ensure efficiency of the entire supply chain (generation to retail). This needs maximum reliance on competition, no national power company privileges, and a level playing field.International experience shows that if the electricity supply's quality and reliability is satisfactory, households will pay the required amounts.

Key infrastructure policy goals are to expand and restore the road network; ensure adequate maintenance and fully fund it(where feasible) through user charges; and strengthen institutional and management capacity. The government intends to bring all-weather transport access within easy reach of 95% of the population, byattracting private investment to provide transport services in roads and other modes (sea and air transport). Yet, the government also envisages retaining full asset ownership in roads, ports, and airports with supporting infrastructure—this significant constraint to expanding the private sector's rolemay need to be reconsidered. PPPs could play a major role in increasing the supply of infrastructure services, particularly transport, and ownership limitations may damage PPP prospects.

A greatly expanded role for the private sector isin infrastructureconstruction (new roads) or maintenance, is being countenance.Thishighly welcome development could finally address the serious maintenance deficit build-up, if the contractual relationship with the private sector is properly managed. Long-term, performance-based maintenance contracts with local private companies will be vital. This approach will also need government agencies to desist from providing subsidized services through state-owned companies.