State Responsibilities, Capacity and Public Private Partnerships

Until the recent turmoil in global financial markets, world commodity prices were widely rising (in some cases astronomically), led by high growth economic rates, notably in China and India with their growing demand for raw materials, notably mineral and some agricultural-based raw materials, such as copper, rubber and energy products. Poor grain harvests in major producing areas (including USA and Australia), combined with use of various foods for bio-fuel (corn and vegetable oils) have pushed up food prices, with panic over supply of staples in some countries inducing trade restrictions, further encouraging speculation and escalating prices.

PNG has been a significant net beneficiary from these higher commodity prices for our export products, although the benefits are not universal, with a substantial portion of the population and businesses worse off from higher fuel and food prices. Certain industries have been principal beneficiaries, but government revenue has also been boosted (with last week's Supplementary Budget again demonstrating this), even though it's deemed a temporary "windfall" . As emphasised n this column, increased revenue, even temporary, provides an immense opportunity to restore and improve public service delivery, settle debts and improve opportunities for broad-based growth and social development, if managed wisely, but there is also great risk of waste and opportunity lost, through poor planning and ill-considered expenditure, with loose fiscal and monetary management encouraging rampant inflation and undue currency appreciation, together with burgeoning corruption.

We are already experiencing strong and potentially dangerous inflationary pressure, weak implementation capacity and inadequate commitment to seriously address corruption, even before any potential LNG development proceeds. Major LNG development has the potential to provide long-term economic stimulus and support for needed public goods and services , but also risks further undermining governance and broad-based economic development, particularly for those crucial and sustainable employment and income-providing industries (e.g. agriculture and tourism).

If LNG development proceeds it will inevitably cause some "Dutch Disease" effects, even in the most prudent economies, triggering substantial economic adjustment, with winners and losers. Maximising benefits and minimising the damage, particularly to major employment generating industries will be priorities for the authorities, including Central Bank, working closely with the private sector. Sound role models for resource management include Norway and, amongst developing countries, Botswana, but there are no standard solutions as all economies vary. Investing prudently (including in needed public infrastructure), minimising corruption and saving (transparently) for future needs (including offshore) are critical. The State should avoid commercial borrowing, particularly on currently tighter commercial terms, and avoid imprudent involvement in commercial ventures (including mining and hydrocarbons).

The State should focus its resources upon core public sector functions, notably infrastructure and services, which remain in an atrocious state, (including achieving the Millennium Development Goals) and leaving commercial investment to the private sector , and withdrawing from its current commercial activities, at least where business can provide these services more efficiently and competitively.

The State needs, however, to reinforce its capacity to negotiate and oversee projects, including the resource and financial sectors. State ownership of businesses (whether mines, LNG operations or telecommunications) or undue fraternising between politicians, regulators and those regulated (whether loggers or shippers, for example) undermines the State's capacity to act prudently and impartially in the public interest, which requires a level investment playing field with a competitive, but adequately supervised commercial sector, particularly when it comes to resource management (including on health and environmental grounds), financial and insurance markets, transport and shipping (including on safety grounds). Recent revelations over a notable shipper chairing the National Maritime Safety Authority, purchase by a State entity of an environmentally problematic mine, major borrowings for participation in the LNG operation, utterly inadequate capacity within the Migration Office, Customs or Air Safety supervision are all cases in point, raising the need for impartiality and public sector right-sizing, meaning ensuring State entities have adequate capacity and staffing; some needing downsizing, but others require increased skills and in some cases numbers. Whilst the private sector remains highly frustrated with excessive government red tape (being a bottleneck on needed investment), some investors relish the government's limited professional capacity in negotiating fiscal conditions for major resource extraction projects. Government takes unnecessary risk in taking up equity in major projects, whilst simultaneously foregoing more assured revenue (from taxes) through weak negotiating skills, often involving politicians, in some cases being unduly 'pally' with specific investors (even undermining State negotiating team s, e.g. in some past fisheries licensing and other resource agreements).

We live in an increasingly globalised world. What happens in the US or China affects people worldwide, with only remote farmers uninvolved in the cash economy remaining relatively immune, although they too are affected by the impact of others e.g. with climate change.

High commodity and especially energy prices have latterly undermined demand and placed pressure even upon wealthy (non oil producing) developed economies, especially testing their weaknesses. With some arguing that global economic instability (boom and bust) was a thing of the past, the recent global financial crises has provided a stark reminder that gravity still exists, and that structures (notably financial systems) built upon shaky foundations, invariably still collapse, namely from allowing money to be printed (loaned) with utterly inadequate security, and with inadequate awareness or supervision (by managers or regulators) of the complex web of transactions and guarantees; providing an impression of solidity, but rapidly tested by speculators once initial cracks appear.

Despite modern communications, in recent weeks this combination of greed, market complexity and lack of transparency has brought down major international financial institutions and generated great market uncertainty. With markets unsure of the rules or what's secure, or what liabilities other institutions (banks) have assumed, there has been a rush for traditional safety (e.g. gold). Credit has become much tighter and developing markets unattractive investment destinations, particularly for more speculative capital.

Markets are driven by entrepreneurs (large and small) pursuing perceived opportunities and taking risks. Markets need a fine balance between freedom (and removal of impediments) for businesses to be innovative, invest and trade, and an adequate regulatory environment (and impartial professional oversight) to ensure competition and restrain excesses, where wider public interest is at stake.

Private businesses take risks and sometimes lose. Some failures are inevitable, but internationally and locally we need to minimise financial and market risks, as we must oversee air and shipping safety, with impartial oversight and enforcement of sound rules. Competition provides the best mechanism to keep businesses nimble and honest, with simple ground rules applied fairly and universally by impartial regulators with real deterrent powers, and ultimately the Courts.

Developing countries have limited experience in regulation, especially of complex evolving markets. If the US can barely handle sub-prime financial excesses, countries like PNG certainly need support. The State must focus, but when it comes to negotiating agreements (e.g. on LNG) and supervising some markets requires reinforced professional capacity. Sometime this can be achieved multilaterally (e.g. regionally), accessing technical skills and standardising some rules.

Public-Private Partnership (PPP) is the latest buzz-word for delivering public services, utilising more dynamic private sector managerial approaches and private capital in partnership with the State. It does not replace privatisation or opening State-owned monopolies to competition, but has long been applied in developed countries with some success and increasingly in developing countries for providing infrastructure and some services. There are cases where it is less applicable, or where the costs to the public (largely in future) are excessive with undue gains to beneficiary businesses. Fortunately, there is a growing pool of knowledge of what works and what doesn't, which PNG can draw upon. PNG has long used PPPs, under whatever name, with agricultural estates traditionally performing wider business and community services, and more recently mining/oil and agricultural companies providing infrastructure and services, including under the tax-credit scheme. The ADB co-funded SSSPP project explored opportunities for smaller agricultural service PPPs. Major projects, like the Kanudi power station demonstrate a 'Build-Operate and Transfer' type of PPP, which at least provides power, but the public paid through the nose, as with other un-competitively-awarded deals from the 1990s (cement, tinned-mackerel and some exim-funded projects from Malaysia and Europe, e.g. police/Defence housing).

With the State's severe incapacity and the urgent need for improved infrastructure and basic services, plus agricultural production and marketing support, PPPs have immense potential, whether for the K50 million+ projects promoted under the Government's (ADB-supported) PPP programme, or smaller agricultural, health and other service programmes. There are private sector businesses already with extensive field capacity, readily able to perform additional functions and others, such as PNGSDP, with considerable capital available (like Government) for suitable projects. As with all mechanisms it is the ground rules and their fair application which will determine whether the PPP initiative proves a success or failure. Too often sound schemes (such as the agro-nuclear enterprise project and various regulations) failed as a result of poor planning or implementation, often deliberately abused. As with the new drive for cooperatives, inadequate preparation and commitment would undermine a valuable initiative. Let's get the PPP initiative right from the start, requiring transparency and no undue discretion being vested with any individual (politician or bureaucrat), and that contracts (or partnerships) are awarded fairly, with the costs to the public fully assessed and revealed.