

## **The Silly Season**

December is upon us. Most of us are letting ourselves slip out of work mode and looking forward to recreation and festivities with families and friends. For those in the formal sector there remain various hurdles before closing the accounts, whilst those in the informal sector, particularly women, must continue to make ends meet regardless.

For those with Elections in mind, however, pressure is building up, and whilst the campaigning period is reduced to three weeks, there are widespread reports of candidates already long on the campaign trail. We have entered what pundits politely term the “silly season”, when political gimmicks and excesses abound in the frenzy to win hearts, minds and votes down the track. It is critical for the country, however, that such excesses are restrained over the next months.

So, enjoy the Christmas break but don't relax for too long, there is much work to be done in the new year by government, oversight bodies and civil society to ensure the new programmes and mechanisms in the 2007 Budget are launched properly and funds used for the purposes intended. With strong commodity prices PNG has earned windfall tax revenue in 2006 and may do so in 2007. Following good financial management principles, the 2007 Budget separates expenditure sourced from this exceptional revenue from recurrent and development expenditure, funded from normal revenue.

For the Treasurer and his Planning colleague their marathon ending with passing of the Budget is now complete, unusually this time with two supplementary appropriations.

During the lead up to the Budget many public servants work flat out finalising the details of the country's money plan. It is a mammoth effort, in several volumes, containing estimates of revenue, allocations to all agencies, together with an economy assessment and forecasts for the next year. Some staff can be forgiven into thinking that with such documents the task is virtually over; it has barely begun.

There is a great misunderstanding of the Budget within government and the wider community. The regional and national development forums have focused upon enabling the community to understand the Budget process, and make those responsible more answerable to the community in the planning and utilisation of public funds at national, provincial and local levels.

The Budget is government's key single annual policy and legislative instrument, serving multiple functions: -. It's the government's vehicle for planning and managing public funds entrusted to it; the vehicle through which government policies are reflected, through funding levels for different public goods and services, or taxes or subsidies on different groups or activities; and a mechanism for determining wider economic activity, through fiscal management influencing demand, and consumer or investor behaviour through tax levels.

The Budget is largely about money management, estimating when revenue will come in and when it can be spent. It is not a statement of the money available for spending on 1<sup>st</sup> January, as some think, as clearly there is no revenue then and relatively little throughout January. There's big pressure for “front-loading” expenditure early in the year, but there's a limit to how much can be advanced.

The 2007 budget comes at a time when the PNG economy is doing relatively well, with high demand for key export commodities, and firm fiscal management over several years.

Nevertheless, growth remains barely ahead of population and, with unsatisfactory social indicators, especially in rural areas, there is no opportunity for extravagant or wasteful spending; every kina must make real impact.

PNG has heaps of decaying essential infrastructure crying out for rehabilitation. Nevertheless, the safest way to use the “windfall” funds would have been to reduce government debt, still at a critically high level of 43% of GDP. This would have been sound, reducing future debt servicing costs and risk, releasing funds for priority expenditure and avoiding pressure to expend large sums in relatively short periods, a recipe for poor utilisation and potential abuse. Theoretically, the preferred arrangement might have been to determine what portion could realistically be spent reliably, providing a sound return. This would be dependent upon several factors, but probably remain less than half the windfall.

Having chosen to allocate only K100 million from the K1,100 million “windfall” for debt reduction (or from K1,782 million, including August 2006 supplementary budget) the key challenge now is to ensure this unique opportunity to restore essential infrastructure is not wasted, through rushed planning and implementation, and lack of adherence to proper and transparent procedures, such as false invoices prevalent in some resource rich provinces. It also requires an effective system for subsequent maintenance, so there’s no dependency on uncertain further windfalls to restore facilities again. The Budget valuably starts to reform provincial and LLG funding and linking budgets to actual costs of services and infrastructure in respective provinces (and districts).

The 2007 Budget appears responsible, further linking expenditure with priorities set in the MTDS, and sticking with the fiscal and debt servicing strategies. On taxation there are few significant changes, and no increases. The continued programme of income tax reduction will provide a modest positive benefit for lower income earners. Major concessions in tourism and mining are exclusive for specific investors; generally a bad arrangement. Why would one new mine get exceptional treatment, or only tourism investments over US\$ 10 million, when most visitors to PNG are seeking smaller eco-lodges. Likewise, many are perplexed at a K30-35 million giveaway to forestry. What are they being rewarded for, unless tied to improved standards? Increased landowner benefits are overdue, but why only benefiting those whose logs are exported?

Whether the Budget proves responsible will depend upon whether the windfall allocations are manageable, given government’s poor track record for project management and limited institutional capacity, especially at provincial and local levels. The windfall component, development budget and reforms to local government finances (including DSIP) will all strain existing capacity and require institutional building, especially over financial management, at all levels, and increased capacity by oversight bodies.

It is disappointing that funding for oversight bodies has not kept pace with the task, such as the Ombudsman Commission with its increased responsibilities, also now covering LLGs, increased workload associated with new requirements on evidence, poor performance of other institutions (including police) and growing corruption levels, undermining the prospects for PNG, and inadequately addressed by government. Likewise, the Treasury Inspection Division’s powers need prompt gazettal to enable oversight of public institutions. The PAC seems to require revitalisation. Statements that MPs are not answerable “to anyone but God” provide little reassurance at this time of: - major new expenditure for 2007; weak management and oversight

systems; MPs chairing local budget committees, reportedly, in Moresby; and with many soon no longer subject to the Leadership Code.

The 2007 Budget is an ambitious effort to address outstanding development restraints, whilst providing continued fiscal stability and investor confidence, somewhat shaken by recent erratic events. Its outcome will require considerable effort, commitment and cooperation by government, MPs, local authorities, private sector (driving the economy and generating revenue) and civil society to whom government and MPs are responsible. The wider community has a critical responsibility over the content and application of their local budgets, and not to demand or permit candidates to use public funds for private electoral promises.