# Time to rethink government's role in PNG's state-owned enterprises

Papua New Guinea's (PNG's) state-owned enterprises SOEs are nearly ubiquitous throughout PNG's urban and regional communities, providing essential utilities (PNG Power Limited and Water PNG), air services (Air Niugini Limited), postal and telecommunications services (Post PNG Limited and Telikom PNG Limited), motor vehicle insurance (Motor Vehicle Insurance Limited), data services (PNG DataCo), regional financing (National Development Bank), and a range of agricultural products (Kumul Agriculture Limited). Controlling US$2.9 billion in assets, these SOEs are a significant force in the PNG community and economy, shaping the quality of life for every PNG resident and the operating environment for every business in PNG.

PNG's SOEs have been the subject of ongoing discussions regarding their contribution to the economy, particularly their consistent financial underperformance and low returns. This underperformance affects the Government's capacity to provide essential services to the PNG community.

SOEs play a role in shaping the economic landscape; they can crowd out private sector activity, which affects the overall competitiveness of domestic industries. This can manifest in various ways, including the under-pricing of goods and services so that it is not feasible (or at least too risky) for private sector firms to compete, and the advantages or perceived advantages of SOE incumbents against competition from private operators.

The combination of organisational inefficiency and reduced competitive discipline ultimately affects SOE service delivery standards. This is particularly relevant in PNG where vital infrastructure services, such as utilities and transport, are provided exclusively by some of PNG's SOEs. When the quality or affordability of these services is not optimal, it can have broader implications, including an adverse impact on the living standards of the community particularly affecting the most vulnerable segments of the population, and the sustainability of the private sector in PNG.

Over the years, various reforms have been aimed at improving the performance and governance of PNG's SOEs. These initiatives have included efforts to commercialise SOEs, introduce private sector participation, and strengthen corporate governance standards. While these reforms have shown promise, the results have been varied.

Sustained political commitment and robust governance arrangements are essential for successful SOE reform, but challenges such as weak governance structures and ongoing financial support for under-performing SOEs have led to negative performance incentives and inefficiencies. A key challenge lies in governance issues related to public ownership. A reassessment of the role of government in this context may be beneficial.

Government ownership in competitive markets tends to lead to inefficiencies. Therefore, consideration should be given to the potential privatization of PNG's SOEs operating in these competitive environments, as well as in partially contestable markets where there may be opportunities for additional competitors to enter or where regulatory measures can safeguard competitive outcomes. Imposing genuine commercial pressures on SOEs generally leads to more effective outcomes than relying solely on administrative measures.

Where full privatisation is not politically or practically feasible, partial privatisation could be considered. This might involve passive investments from superannuation or pension funds as a bridge to, or in tandem with, more active private sector investment.

Furthermore, even where privatisation is not appropriate, the discipline of private firms to improve performance can be introduced through joint ventures or public-private partnerships (PPPs).

As traditional approaches have often fallen short of achieving the desired outcomes of both Government and the private sector, we suggest that the Government consider exploring privatization as a structural solution.  We also recognize that the process of SOE privatization and reform is a long-term and challenging endeavour that requires strong partnerships and collaboration between the Government and private sector. AmCham Coral Sea stands ready to support and facilitate this process through bridge-building, creative brainstorming, and road mapping across all stakeholders to achieve mutually beneficial goals for a prosperous PNG.