



**POLICY CHARTER FOR THE INDEPENDENT PUBLIC BUSINESS
CORPORATION**

BY

**MINISTRY OF PUBLIC ENTERPRISES, INFORMATION &
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VISION AND MISSION STATEMENTS

VISION

To ensure that the Government Assets, and in particular the State Owned Enterprise sector are managed according to international best practice.

MISSION

To institute stronger governance, best practice and commercial accountabilities structures in the Independent Public Business Corporation to maximize the value of its assets and investments for the benefit of the State and the people of Papua New Guinea.

1. INTRODUCTION

1.1 Background

As well as provision of public services and infrastructure e.g. banking, power, water, telecommunications, ports and air transport etc, the National Government has taken stakes in a variety of local companies and projects, in sectors such as agriculture, mining and forestry, as a catalyst to develop economic activity and foster growth. The structure of the entities, ownership and governance arrangements are varied and have also changed over time.

However, the history of delivery of key public services in Papua New Guinea has been poor, largely as a result of bureaucratic cultures and control processes, inept management and inappropriate governance standards. Management of other State business assets has also been less than optimal.

A lack of coordination among Government Departments and Agencies and the inability to relate effectively to financial markets and International Funding Agencies (IFA) have resulted in the inability to access funding for key development projects and in missed opportunities for economic growth. When IFA related funds have been made available, too often there has been a lack of optimisation due to the poor co-ordination and implementation.

Previous governments, the Morauta government in particular, sought to address these failings by policies of corporatisation and privatisation, primarily through the establishment of the Privatisation Commission, seeking to remove responsibility from the bureaucracy and implementing private sector disciplines and performance standards.

1.2 Establishment of the Independent Public Business Corporation

In mid 2002, in recognition of the mixed outcomes of these policies but with the objective of continuing to improve service delivery and management of State owned assets (including the State owned Enterprises (SOEs)), the National Government established the General Business Trust (GBT), through the *Independent Public Business Corporation of Papua New Guinea Act 2002*, into which a range of government assets were vested wholly for the benefit of the State and the Independent Public Business Corporation of Papua New Guinea (IPBC) as trustee.

IPBC was originally to operate entirely separately and independently from the State and not be subjected to any direction or influence by the State, by Ministers or by the Parliament other than as provided for explicitly in law and its trust deed.

As trustee for the GBT, IPBC exercises all of the shareholders rights and duties with respect to the assets it holds, including the right to grant options over, or sell any or all assets subject to any specific caveats that may be attached to specific assets on vesting and guidelines and timetables approved by the National Executive Council (NEC).

IPBC is accorded the usual rights and responsibilities of a shareholder including the right under the Companies Act to remove and replace directors, subject to the terms of any constitution of the entity. Under the Somare government, which took office in August 2002, an amendment to the IPBC Act gave the powers of appointment of Directors to business enterprises and approve consultancies, to NEC, which was subsequently delegated to the Minister for State Enterprises and Information.

IPBC was originally unable to borrow or charge the trust assets without the prior consent of NEC.

The incorporation of IPBC reflected a policy commitment to manage government assets and State Owned Enterprises (SOEs) on a sound commercial basis through a corporation separate from the Government's public interest functions of policy-making and market regulation.

1.3 Original Role of IPBC

Initially, IPBC undertook a three-tiered approach to management of assets vested in it:

- Tier 1 was to sell-off those assets where it was thought (at the time) there was no justification for government ownership. These included minority shareholdings in some agro-business entities and the sale of commercial properties such as Pacific Place and Bogan Gapo (Revenue Haus);
- Tier 2 was to provide financial and structural strengthening and support to those assets that required it. This included PNG Power Limited and Air Niugini Limited; and
- Tier 3 was to enter into public private partnership arrangements for those state owned enterprises at an appropriate phase of growth. This included

Telikom PNG Limited (Telikom), Motor Vehicles Insurance Limited (MVIL) and PNG Harbours Limited.

In 2002 - 2004, the government unsuccessfully attempted the both the partial sales processes of MVIL and Telikom. With those experiences, the government has now shifted focus to cost efficient service delivery in an environment of international best practice, commercial accountability and the upgrading of domestic skill levels.

As outlined in Section 2, Papua New Guinea is currently facing a significant challenge in funding and managing the capital expenditure required to rehabilitate and upgrade its critical service networks across all sectors as well as develop new infrastructure and sponsor major projects to foster economic growth.

In light of the ineffective historical performance of Government Departments and SOEs, it is clear that there is a need to ensure the coordination of all Government service delivery and infrastructure development to maximise benefits and efficiently utilise the Government's scarce financial and management resources and ensure policy directions are implemented.

2. CHALLENGES FOR NATIONAL INFRASTRUCTURE DEVELOPMENT

2.1 Introduction

The challenge is to enable the SOEs to provide the quality and depth of services required to adequately support PNG's current economic and social infrastructure and foster economic growth and community development, significant capital expenditure is required over the next 3 years. This requirement is both a function of growth and redressing years of lack of spending as a result of poor management and minimal expenditure while privatisation policies were pursued.

2.2 SOE Capital Expenditure Needs

To deliver the National Government's infrastructure goals in accordance with the Medium Term Development Strategy (MTDS) and other relevant sectoral policy guidelines, the SOE sector must be able to finance capital expenditure requirements. Due to a mixture of inappropriate policies, unwarranted interference and inept management, these capital expenditure requirements are quite substantial.

As at October 2006, the combined capital expenditure of the State owned enterprises is expected to be around K1.75 billion from 2006 - 2008, of which approximately K760 million will need to be funded externally.

The borrowing requirement excludes any needs of the financial institutions, Motor Vehicles Insurance Limited and Rural Development Bank Limited, which are subject to independent regulatory and prudential requirements and should be self supporting.

The issue facing the SOEs is whether each entity has the capacity to finance its requirements on balance sheet against forecast cash flows.

2.3 Financing Issues

While the overall cash flow forecasts indicate that the financing of the SOE needs may be able to be achieved on balance sheet by each of the relevant entities, a number of important issues must be addressed before either the domestic or foreign capital markets will be prepared to provide the necessary finance.

The key concerns of the financial markets are:

1. Corporate Governance and specifically the quality and stability of the Boards and the overall implementation of and adherence to benchmark corporate governance standards;
2. Quality of management particularly the capacity to scope and implement the capital expenditure programs. The emphasis on project management, co-ordination and implementation is an increasing prerequisite for commercial and developmental bankers and IFA personnel; and
3. Lack of clarity of competitive market frameworks and settled timing for the introduction of competition in sectors where the SOEs currently enjoy monopoly positions.

Lenders will require coherent and consistent Government policy, commitment to good corporate governance, international best practice, commercial accountabilities and the capacity to boost management expertise if they are to provide financing without recourse to the State.

The new role of IPBC as outlined in Section 3 will provide a basis for providing the necessary assurance to financial markets and ensuring the required funding can be put in place in the desired timeframe.

2.4 Infrastructure Projects under the MTDS

Apart from the financing required by the SOEs, the MTDS calls for significant funding of infrastructure and related projects which are currently not funded on budget.

2.5 General Business Trust

Apart from its ownership of the SOEs, the GBT currently holds significant assets that could be used to support the funding of the priority projects which cannot be directly funded on budget. The financial position of the GBT is outlined below.

As at 31 December 2005 the General Business Trust had net equity of approximately K3.1 billion as shown in the following table;

Kina (millions)	2004	2005 est
Assets		
Cash, Treasury Bills and Receivables	29.5	33.9
Investments in State Owned Enterprises	1037.2	1036.3

Investments in Unlisted equities	143.7	144.2
Investments in Listed Equities	867.1	1887.4
Total Assets	2077.5	3101.8
Liabilities		
Payables	3.7	0.2
Total Liabilities	3.7	0.2
Net Assets	2073.8	3101.6

IPBC received K47.0 million in dividend income of which around 55% was from listed equities and the balance from SOEs. A further K2.3 million was received from interest, property rentals and asset sales with expenses of K1.2 million related to asset sales and K14.9 million to IPBC operating costs.

The increase in net assets was largely attributable to the increase in the value of Oil Search, Bank South Pacific and Highlands Pacific shares held. Since 31 December 2005 the listed equities have increased a further K266 million.

This strong financial position could be leveraged by way of direct borrowing against the cash flow generated, monetising the capital value of the equities held or where no strategic value is ascribed to the asset by disposal.

3. NEW ROLE FOR IPBC

3.1 Introduction

The current arrangements clearly position IPBC in a trustee role for the assets held by the General Business Trust, from time to time, and to undertake asset disposals as directed. In addition there are some provisions which fetter the normal rights of an asset holder or shareholder e.g. the appointment of Directors to business enterprises by NEC on Ministerial advice, restrictions on borrowing etc. which conflict with good governance principles, and make IPBC's asset management task more difficult and risk suboptimal outcomes. IPBC's function is one of administration and monitoring of performance rather than proactively using the Trust assets to foster development and economic growth in PNG.

Retaining the current role for IPBC will result in solid and effective management of the current asset portfolio if some of the governance conflicts are resolved but will miss the opportunity to fully harness the potential of IPBC to leverage its asset base and management skills to support PNG's economic development.

A return to direct Ministerial control effectively returning the SOEs and assets to management and administration by Government Departments and Agencies and Treasury is considered a "back to the future" approach which will not deliver the coordinated professional approach needed. The historical reality is that this model produced the moribund non-performing entities responsible for delivering services that are currently undergoing rehabilitation. This model does not easily facilitate employing the Government's asset base to underpin development objectives or maximising focussed use of skilled management and other resources.

3.2 Policy Objectives

Given the need for significant improvement in performance and service delivery from the State owned Enterprises involving substantial capital expenditure, organisational rehabilitation and restructure and the imperative to improve and develop national infrastructure and sponsor new projects, it is incongruous that IPBC is largely confined to a management and monitoring role and is not charged with the responsibility of using its asset base and breadth of knowledge to be an engine for growth and development.

Recognising the considerable advantages to be gained from using the Government asset base and a coordinated approach to meeting the

Government's service delivery goals and the objectives of the MTDS, IPBC's function should be broadened from its management role in respect of the SOEs and other assets held in the General Business Trust to coordinate and assist responsible Departments and Agencies plan and deliver major development and infrastructure projects including arranging and managing international aid assistance and funding.

3.3 Strategies

To effectively carry out this new task, IPBC must address the following:

I. Establish an ownership policy with respect to the assets vested in it.

The State must clarify its ownership policy and prioritise its objectives. Currently there is much contention on the seemingly multiple and contradictory objectives resulting in essentially a passive approach to this ownership function.

The objectives may include for example competition policies, assisting in the development of the local capital market, profitability and as detailed as targeting specific qualitative and quantitative performance measures. This will also ensure that the relevant SOE's, for example, the economy and the greater public are aware as to the direction of the sector.

II. Strengthen the structures for corporate governance, commercial accountabilities and international best practice (including skills transfer) to the relevant entities

IPBC will not be involved in operational management but provide guidance on issues relating to strategic policy. IPBC should also act as a buffer for other government agencies and departments who may wish to unduly influence the direction of relevant entities.

The selection criteria for selection of Board members for the relevant entities must also be strengthened to ensure the requisite mix of industry experience, general professional competency and community representation. They must further be allowed to make independent commercial decisions.

III. Manage the assets with a holistic portfolio, risk management approach

Many of the programs for the assets have been on an ad-hoc basis rather than a sound asset management approach. There may be areas that or classes of assets which are currently not adding any value or are inhibiting resources for IPBC.

IV. Assist other parts of government and the private sector, where appropriate, with other national developmental goals and objectives; and

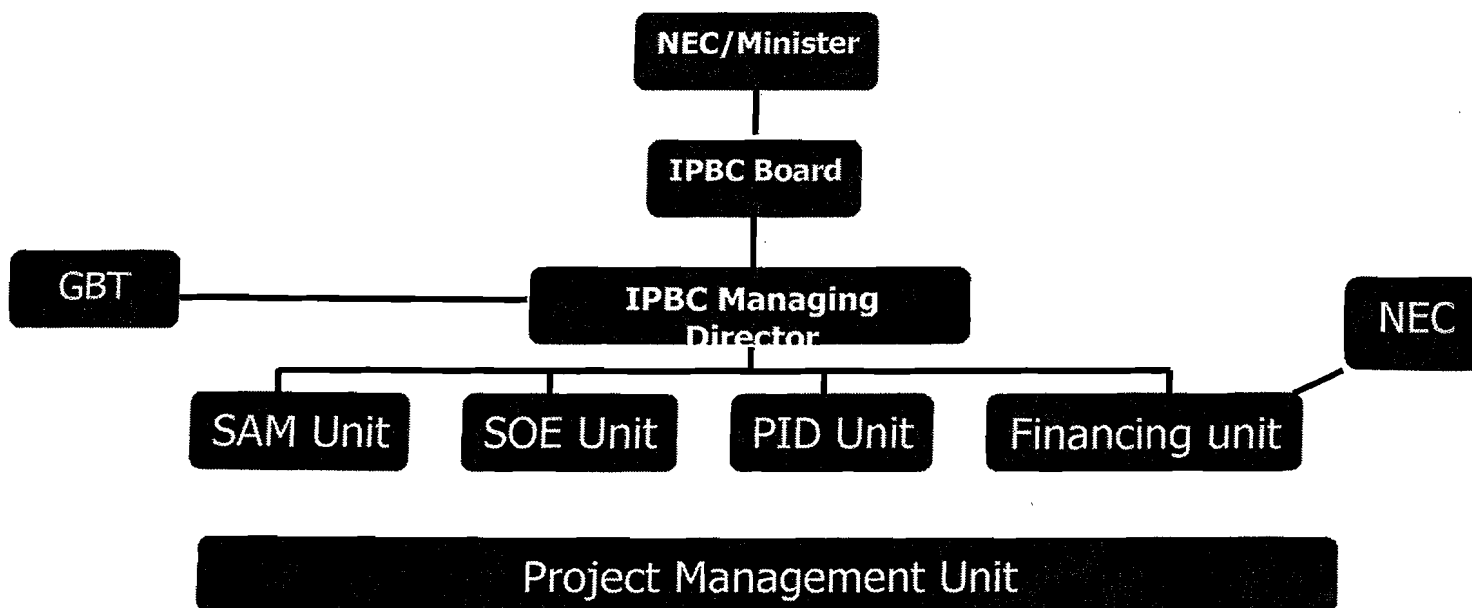
IPBC continues to build commercially focused skills that may be useful in assisting other major project initiatives of the government more efficiently than other arms of government. Proper structures must be put in place so that IPBC can support other relevant agencies and departments.

V. Create the necessary structures that will allow IPBC to facilitate the above.

With approximately K760 million in external financing required, structures must be established to provide confidence to lenders, requisitely skilled personnel to design debt structures and appropriate checks and balances for accountabilities.

IPBC should not take on or usurp the role or responsibilities of Government Departments or Agencies or the SOEs rather its role would be to coordinate the planning processes and use of resources as well as provide specialist expertise and raise financing required. The outcome would be the removal of duplication of effort, elimination of waste of resources, and more timely and cost effective delivery of services and projects.

3.4 Organisation Chart



There would be four units supported by a project management unit reporting to the Managing Director and Board with oversight from NEC via delegation to a nominated Minister as outlined in the above diagram.

3.4.1 State Owned Enterprises Unit (SOE)

The unit would utilise skilled professionals in the specific areas e.g. power, telecommunications, aviation, transport, etc. Its function would be to oversee the SOEs and provide specialist assistance such as project management expertise. The existing reporting framework should be boosted by each SOE having to agree to a Statement of Corporate Intent and report and deliver against it. This unit would also manage any asset disposal including shares in the SOE's or project delivery by Public Private Partnerships (PPP), etc.

IPBC would have normal shareholder rights and the current rights accorded to NEC/Ministers would cease to ensure there is no conflict in respect of governance. Each SOE Board and management would be responsible and accountable for the performance of the SOE. The Departments of Treasury and National Planning and Monitoring would have responsibility for leading the policy frameworks for each sector but may seek advice and assistance from both the individual SOEs and this unit.

3.4.2 State's Assets Management Unit (SAM)

This unit would have responsibility for managing all major State owned assets other than SOEs. Shareholdings in companies/business enterprises, MRDC and property holdings would be included. It is probably not appropriate to include responsibility for Departmental assets although centralising responsibility for policy and managing of these assets would provide significant benefit but not in the GBT. The unit would also manage any asset disposal or acquisitions.

The inclusion of the mooted holding vehicle for the Government's mineral and oil and gas assets - the proposed Petromin PNG- would logically fall within this structure as it represents an industry based example of the benefits of a coordinated approach building on existing assets to foster development. It may be that existing GBT oil and gas and mineral assets are transferred to this vehicle which is then managed as part of the overall portfolio but with specific focus on supporting and developing new natural resource projects.

3.4.3 Major Projects and Infrastructure Development Unit (PID)

This unit would be responsible for coordination of the evaluation, planning development and implementation of all major projects (in conjunction with the relevant government department or agency) having to do with infrastructure relation to the State owned enterprises. This may include for example rural electrification, upgrading of smaller regional ports and rural information, communications and technology capabilities.

Again this would be a small unit organised along a project team basis using skilled professionals to support the teams.

While it has been argued that this may lead to duplication of efforts with other line departments the reality is that the public sector in PNG has been unable to effectively coordinate and manage large infrastructure projects. This unit would fill that void and the line department and/or agency would be involved from a monitoring and policy viewpoint.

3.4.5 Financing Unit

The role of a newly established Financing Unit would be to implement the operational functions of a corporate treasury for the benefit of SOEs, and the State. The Financing Unit will not formulate Government policy, but work within the policy frameworks developed in consultation with the Departments of Treasury and the Department of National Planning and Monitoring and approved by NEC and generally require Treasury approval for any debt issues or other fund raising.

In performing this role, the Financing Unit's primary responsibilities would include:

1. Provision of financial advisory services to the SOEs;
2. Providing financial risk management services and advice to the SOEs;
3. Sourcing the SOE's long-term debt funding requirements particularly for their capital expenditure programs in the most cost effective manner, and assist SOEs manage their existing debt portfolios;
4. Investing the SOE's short to medium-term cash surpluses with the aim of maximising returns to the SOEs within a conservative risk management framework;
5. Sourcing and arranging the debt and equity funding requirements for Government sponsored infrastructure and other development projects in

the most cost effective manner. This may include PPP or Build Own Operate & Transfer arrangements or other participation by the private sector; and

6. Assisting the relevant agencies, where appropriate, in the delivery of aid assistance and funding with a view to ensuring aid and funding are directed to those projects and activities that support and assist in delivering the Government's policy objectives and are consistent with National Planning goals. The unit may also assist with the management of IFA project related debt.

The Financing Unit may need to be established by legislation probably as a corporation and have the power to make debt issues. It would not have a specific Government guarantee.

All of the Financing Unit's borrowing programs and specific financings e.g. project finance would need to have NEC approval to ensure the overall Government debt program is not compromised and provide a review process for the Financing Unit's activities. The Financing Unit would have the capacity to charge General Business Trust assets to support its borrowings subject to NEC approval.

3.4.6 Project Management Group

Supporting each unit and as required the SOEs and project teams would be a Project Management Group which would comprise a team of widely experienced and skilled project managers. The group would be on call to support the planning and delivery processes for new projects by providing their expertise to the project management teams put in place for specific projects.

IPBC could appoint qualified professionals to support the management of each unit and any asset disposal or acquisition tasks. IPBC would not require significant staff resources to fulfil the management function but would need to appoint qualified personnel to each unit.

The primary advantage of this model is that it will concentrate scarce management resources facilitating coordination of these resources with the financial capacity of the General Business Trust in the context of overall government policy frameworks to optimise delivery opportunities for national development objectives. Naturally, each element of the proposed restructure is not required to deliver benefit, but the total approach proposed provides synergies and is considered most likely to produce the best outcomes.

Clearly the option devolves significant power to IPBC but effective control by way of policy settings and NEC oversight of borrowing activities and financial management provides the required balance.

Significant work will be required to detail the operational mandates and procedures for each of the units and ensure appropriate governance regimes and checks and balances are in place. This can however be undertaken speedily once the overall approach is endorsed.

ANNEX I - GLOSSARY OF TERMS

Air Niugini Limited - Monopoly Airline Carrier owned wholly by the Independent Public Business Corporation through the General Business Trust

Bank of South Pacific (BSP) - Commercial bank merged with the former PNG Banking Corporation. The State remains the largest shareholder through IPBC.

Companies Act - The Companies Act 1997

Department of National Planning & Monitoring - Government Department responsible for the management of the development budget and the chief implementation agency for the nations Medium Term Development Strategy

Department of Public Enterprises, Information & Development Cooperation - Government Department responsible for the IPBC Act and the relevant Acts for the SOE's.

Department of Treasury - Government Department responsible for Treasury matters

General Business Trust - Trust established under the IPBC Act 2002, into which a range of government assets are, and can be, vested with IPBC as its trustee.

Highlands Pacific Limited - a mining and exploration company that is dual listed on the Australian Stock exchange and the Port Moresby Stock Exchange.

International Funding Agencies - e.g. Asian Development Bank, the World Bank, AusAid, JAICA, European Union

Independent Public Business Corporation - Government's asset manager established under the IPBC Act 2002 and trustee for the General Business Trust

Independent Public Business Corporation Act - IPBC Act 2002

Medium Term Development Strategy - policy for National Government development priorities 2005 - 2010

Motor Vehicles Insurance Limited - Compulsory Third Party Insurance entity wholly owned by the IPBC through the General Business Trust

Morauta Government - The Government led by Sir. Mekere Morauta, Kt, MP 1999 - 2002

National Executive Council - The Executive arm of Government chaired by the Prime Minister and 29 Members of Parliament holding Ministerial Portfolios

National Government - The government of the Independent State of Papua New Guinea

Oil Search Limited - Oil & gas company dual listed on the Australian Stock Exchange and the Port Moresby Stock Exchange of which IPBC is the largest shareholder

PetroMin - An mining and oil & gas entity being proposed by the Department of Treasury and the Minerals Resources Development Corporation

PNG Harbours Limited - State owned enterprise responsible for the management of all harbours in PNG.

PNG Power Limited - Monopoly Power & Energy entity wholly owned by IPBC through the General Business Trust

Privatisation Commission - Predecessor to IPBC established under the Privatisation Act 1999

Ramu Nickel Project - proposed Nickel & Cobalt project in the Ramu area of Papua New Guinea.

Somare Government - the Government of Rt. Hon. Grand Chief Sir Michael Somare 2002 - 2007.