



# ***Spotlight with NRI***

## **Development Issues, Policies, and Trends**

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### **THE SOVEREIGN COMMUNITY INFRASTRUCTURE TREASURY BILLS ARE UNDEMOCRATIC, ILLEGAL AND IMMORAL**

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#### **Introduction**

This article argues that Government borrowing and spending on the *Sovereign Community Infrastructure Treasury Bills* which have recently been discussed widely in the media is clearly outside of the purview of parliament. It is thus contrary to one of the most basic principles of democracy, is illegal as per the *Public Financial Management Act*, and creates incentives for incumbents to accumulate strategic debt. The bills are therefore undemocratic, illegal, and immoral.

#### **Background**

In early February 2011, there was furor in the media when the East New

Britain Governor revealed that the Kokopo District Administration had secured K125 million from NAS-FUND through the *Sovereign Community Infrastructure Treasury Bills*. The Governor was concerned that the procurement of works and the expenditure of these funds were being done outside of the established mechanisms, such as the East New Britain Provincial Tenders Committee.

We then saw a media statement from the Treasurer defending the scheme, stating that it was legal and proper and that the State had created the *Sovereign Community Infrastructure Treasury Bills* as a vehicle to raise money for community development projects.

The Treasurer also was reported to have stated that this was a public borrowing and that the national Government would be bound to repay NASFUND.

An advertisement under the heading, 'Issuance of Special Purpose Securities by the State', purportedly signed off by the Prime Minister was supposedly to inform the public of this facility.

The sacking of the acting Public Prosecutor and the establishment of a Leadership Tribunal by the Chief Justice to hear the case of misconduct in office of the Prime Minister have overtaken discussions on this issue.

I intend to regenerate discussions on the issue, because it has significant implications for Papua New Guinea.

### **Why debate this issue?**

This issue should be debated and discussed with the view to ensure that established processes are adhered to. Furthermore, I am more concerned that if not checked and supervised, total borrowing by the Government would go out of control with serious repercussions for the wider economy and the ordinary person.

This scheme provides incentives for other Members of Parliament to borrow under sovereign guarantee. Community leaders may also be planning access to similar levels of funds for development projects under very loose rules similar to the Kokopo Community Development Project.

If unchecked, billions of kina of government debt could be quickly accumulated. Ultimately, tax payers will shoulder this burden.

### **What is wrong with the issuance of the sovereign community infrastructure bills?**

Every year, the executive government proposes a national budget which is then considered and approved by Parliament. This is a money plan for public expenditure and the raising of funds that includes the imposition of taxes as well as government borrowing to fund these expenditures.

The approved annual national budget is only a plan. It is the responsibility of the executive government, led by the Treasurer to oversee the cash flow to implement the budget.

If tax monies and other revenue funds, including the borrowing of funds approved in the budget are not coming in as expected and there is pressure to spend money up front, then the Minister is authorised to borrow money.

The *Public Financial Management Act* states that, "*The Minister may, for and on behalf of the State, borrow money: (a) from such domestic and external sources; and (b) on such terms and conditions – as the Head of State, acting on advise, approves, in order to meet temporary deficiencies in revenue in a fiscal year.*"

The *Public Financial Management Act* also clearly states that:, "*The State may*

*not borrow money except under and in accordance with an Act of Parliament.”*

The 2011 Estimates of Revenue and Expenditure do not show an item listed as ‘Sovereign Community Infrastructure Treasury Bills’ as a source of Domestic Funds to finance the budget.

It may be bundled together in the budget lines under Inscribed Stock or/ and Treasury Bills where total borrowing to finance the budget is indicated. Furthermore, it may be hidden somewhere within a larger program under the Development Budget.

If the expenditure component and the financing aspect are hidden amongst the other areas of the budget then I would argue that this is not proper. Parliament must be allowed to consider and approve projects which are considered by the Executive Government under the *Sovereign Community Infrastructure Treasury Bills*.

The ‘Special Kokopo Community Infrastructure Project’ therefore breaches the described provisions of the *Public Financial Management Act*.

### **What are the implications?**

There are several implications from the ‘Special Kokopo Community Infrastructure Project’ for the country, including the following:

- The borrowing of money is a public borrowing because it is the people of Papua New Guinea who will pay

for it from future earnings. This has significant inter-generational implications because, such sovereign debts lock-in the future generation. Leaving our children and grand children with high levels of debt is immoral!

- Borrowing outside of Parliament approval undermines a basic principle of democracy. Governments lose office on failure of having the National Budget approved by Parliament.

PNG is a democracy and if the people of PNG are going to have to repay the loan, then the people’s representatives in parliament must approve the above. The slight of hand via the Bills is eroding one of the basic principles of democracy and in the process, undermining the institutional basis for nation building.

- If the borrowing of funds is State endorsed, the funds harnessed are public funds and for all intent and purposes, must be expended using the guidelines provided under the Public Financial Management System and the Public Investment Process.

To date, it is not too clear from the media, how the various components of the project have been designed; what are the decision making processes for approving suppliers of such services; and the project management oversight systems.

- The anticipated revenue from the

LNG gas project has the potential to create a spending spree, which can seed the foundation for economic instability with serious economic, political and social implications. The Special Kokopo Community Infrastructure Project and the frenzy of spending to satisfy a never-ending appetite for more money from landowners are examples of such expenditures.

PNG is well aware that the financial crisis of the mid-1990s, which resulted in the floating of the Kina was triggered by the exorbitant spending, in anticipation of the resources booms, with the anticipated revenues from Ok Tedi, Misimiamia, Porgera, Kutubu, and Lihir. PNG should be wise enough not to repeat such costly mistakes again!

## Conclusion

There are three main arguments made here:

- the *Sovereign Community Infrastructure Treasury Bills* are

clearly outside of the purview of Parliament and thus contrary to one of the most basic principles of democracy;

- it is illegal as per the *Public Financial Management Act*; and,
- this scheme creates incentives for incumbents to accumulate strategic debt.

Therefore, the *Sovereign Community Infrastructure Treasury Bills* are contrary to one of the basic tenets of a democracy where money bills must go through parliament, is illegal and has the incentives for strategic debt accumulation.

In summary, the *Sovereign Community Infrastructure Treasury Bills* are undemocratic, illegal and immoral.

## About the Author

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