Chapter 18

Privatization Policy in Papua New Guinea[1]

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Introduction

In its short history as an independent state, Papua New Guinea has gone full circle, from a mostly private enterprise economy through state capitalism and back to private enterprise, much more rapidly than many developed countries. In 1975 its public enterprise sector was quite small, and broadly limited to the classical public utilities of electricity, water and sewerage, transport (airways and harbours), posts and telecommunications, and central banking. Shortly before independence, the government acquired the local banking network of the Commonwealth Bank of Australia, renamed the Papua New Guinea Banking Corporation (PNGBC). In addition, the new government owned the Papua New Guinea Development Bank and the Investment Corporation. However by 1981 the central government had acquired direct interests in 34 public enterprises (with at least 49 per cent ownership in 28 of them), and indirect controlling interests in another 23 companies through the Development Bank and the Investment Corporation (Trebilcock 1982, 4). Similarly, while in 1975 the government had equity of 20 per cent in one mine (Bougainville Copper Ltd), in 1979–80 it took up 20 per cent in Ok Tedi Mining Ltd, and announced its intention to take up 10 per cent in the Porgera gold prospect. In 1986 it took up 20 per cent in the smaller gold mine at Misima, and from 1992 it held 22.5 per cent in the Kutubu, Gobe, and Moran oilfields; an initial 30 per cent in Lihir Gold was acquired in 1995.

As described below, various governments culminating in that of Sir Mekere Morauta (1999–2002) had succeeded in divesting themselves of most of this rather large portfolio of wholly or partly publicly-owned enterprises, so that by 2002 they had transferred the state's holdings in almost all mining and petroleum projects either to landowners and provincial governments in project areas or to Oil Search Ltd, and most of its shareholdings in oil palm plantations and other non-mining companies had also been sold. By July 2002 the Morauta government had also completed sale of PNGBC to the private sector bank, Bank of South Pacific, and had established a framework for privatizing Air Niugini, PNG Power (formerly Elcom, the Electricity Commission), Telikom PNG, and the Harbours Board through a holding entity, the Independent Public Business Corporation (IPBC), but since then the Somare government (July 2002 to 2007) has stalled this process (see below).

The justifications usually advanced for the kind of expansion of the public enterprise sector that had occurred in Papua New Guinea in its first few years of independence included the argument that certain activities generate social benefits to the wider community greater than the benefits accruing to their private owners, with the implication that the private owners would not expand the activity to a scale commensurate with the potential social benefits. This argument had considerable force in the case of services like education and health, where inability of a proportion of the community to meet the costs of provision could lead to under-provision by the private sector, but was used more questionably to justify nationalizations, like those of the privately-owned copper mining industry in Zambia in 1970 (Faber and Potter 1971).[2]

Another commonly used argument for public ownership in Papua New Guinea was as a means of controlling 'natural monopolies', that is those industries where 'the total market can be served at lowest cost by a single firm', because of declining marginal costs (Trebilcock 1982, 8). Airlines are classic examples of falling-cost industries, as the Australian experience of recurrent collapses of Qantas's fare-cutting competitors demonstrates.[3] In Papua New Guinea telecommunications and electricity were also deemed to be 'natural' (i.e. falling cost) monopolies, without any evidence being advanced that this was indeed the case, given that the manifestly small domestic markets for these industries made it unlikely that they could achieve the economies of scale that lead to declining unit costs. After 1980 there was deregulation and privatization of state-owned telecommunications and power industries in many countries, led by Britain and New Zealand, but the regular demise of new entrants (like that of OneTel in Australia in 2001) suggests these industries may indeed be natural monopolies. Irrespective of the existence of falling costs, Papua New Guinea's telecommunications and electric power undertakings continue to enjoy *statutory* monopoly status, which still prevents new entrants to these industries.

Other arguments for expanding public ownership in Papua New Guinea included replacement of 'inappropriate' foreign ownership in cases where that was perceived to favour overly capital-intensive technologies, and a supposed need for government to be a direct participant in certain industries as a means of obtaining information needed to monitor the private sector participants, for example, logging (Trebilcock 1982, 9–11). In practice the government's joint ventures with various logging firms at Stettin Bay, Gogol, and Open Bay never yielded the expected inside information on transfer pricing and other unacceptable activities, perhaps because of the inevitable conflict of interest for the government in its roles as both shareholder and tax collector – a conflict present in all firms in which governments have shareholdings. Under Papua New Guinea's *Companies Act*, the government directors on the boards of companies in which it had shares had a primary fiduciary duty to all the shareholders of companies like Bougainville Copper and Stettin Bay Lumber, not just the government, and that duty would quite naturally include seeking to maximize company profits, irrespective of environmental costs, and to minimize taxes. The Papua New Guinea government's equity in Bougainville Copper Ltd, the Porgera Joint Venture, and Ok Tedi Mining Ltd created a striking conflict of interest in regard to the environmental impacts of those mines.

Papua New Guinea's public sector at independence

To any first-time observer of Papua New Guinea's economy in 1975, other than the staff of the World Bank and International Monetary Fund (IMF) that have constantly claimed that its public sector was too large, one of the most striking features would have been the very small size of the public sector, especially when measured by the number of employees, the proportion these were of the total population, and the availability of public services in general and public utilities and infrastructure in particular. At independence in 1975 the total number of public servants in the central government was 25,951. In addition there were 4,034 government-funded teachers (in 1971–72) and 6,137 health workers (1972–73). The total number of public servants was 44,981 in June 1973. (Administration of Papua New Guinea 1974, 226–229, 236). The increase to over 70,000 by 2005 is wholly accounted for by the increase in the number of teachers to over 30,000.

Thus public servants amounted to under 2 per cent of the total population of about 2.5 million in 1975. That meant large areas of the country other than the towns were innocent of any form of government presence, apart from some teachers and health workers in the larger rural settlements. The education system enrolled fewer than 250,000 pupils, about half of total school-age children, but with only 371 in Year 12 and 4,374 in Year 10 by 1975 (Curtin 1991, 158).

Such figures confirm Papua New Guinea's status as a Third World country when it became independent. With total internal revenue of $A93 million in 1973, and grant revenue from Australia of $A83 million, for total recurrent revenue of $A176 million or $A7 per capita, clearly the central government's resources were limited, while the local government councils were able to raise only $A5.5 million in local taxes, rates, and charges (Administration of Papua New Guinea 1974, 249, 261).

The country's public enterprise sector was even smaller than the administration, and provided services limited in the main to the towns, of which only three (Port Moresby, Lae, and Rabaul) had populations of more than 25,000 in 1971. For example, there were but 14,596 telephone subscribers in 1973, and electricity production amounted to only 474.3 million KWh in 1972, of which half was attributable to a single user, Bougainville Copper Ltd. (Administration of Papua New Guinea 1974, 226–229, 236, 295, 300). The postal and telecommunications services were provided by a government department until 1982, and there were few statutory authorities carrying on commercial activities, with the exceptions of the Harbours Board and Electricity Commission (Elcom), which had been set up broadly in their present form in 1962, and Air Niugini, set up in 1973 (Whitworth 1993, 4). In addition to such utilities, the new state's government was a minority shareholder in a few large private sector plantations, such as New Britain Palm Oil Ltd. The government was also directly involved in regulating various primary industries, such as coffee and copra, by the colonial legislation that had set up marketing boards, but was not itself engaged in production or ownership.

The most significant government involvement in private sector enterprises was in the financial sector. In addition to owning the largest commercial banking network (PNGBC), the government retained the Investment Corporation set up by the colonial administration as a unit trust for acquisition of shares in ownership of major foreign investments on behalf of Papua New Guinean subscribers to the Corporation's capital. The government also retained ownership of the Papua New Guinea Development Bank set up in 1965 (renamed Agriculture Bank and later, Rural Development Bank) that extended loans for agriculture and mainly small-scale industrial and commercial undertakings from resources provided initially by aid donors and later only by the government, without ever becoming a deposit-taking bank.

Thus, even if in 1975 privatization had been a concern of the government — it was not — there was little to privatize. To the contrary, the Allende government's nationalization program in Chile (including the US copper mining company Kennecott in 1971), and then the overthrowing of Allende by Pinochet, inspired some of the new nation's leaders, notably John Kaputin (the first national to be minister for Justice), to call in 1974 for expulsion of Kennecott from the Ok Tedi copper and gold prospect (Jackson n.d., 57). The World Bank's support of an influential report (Overseas Development Group 1973) recommending interventionist economic development policies after independence also stimulated the pre-independence Somare government's Improvement Programme of 1972 that called for 'government control and involvement in those sectors of the economy where control is necessary to achieve the desired kind of development'. This statement found its way into the Preamble and the Five National Goals of Papua New Guinea's constitution in 1975, which in effect retained this equivalent of Clause 4 of the British Labour Party's manifesto (May 2001, 309–310).[4]

In any event, shortly before independence the government successfully dislodged Kennecott from its Ok Tedi copper discovery (Jackson n.d., 70). Then, for a time the government in effect became a mining exploration company in its own right, through its wholly-owned Ok Tedi Development Company, which supervised various drilling programs at Tabubil until it finally succeeded in transferring the project to Australia's BHP in 1980, with retention of a minority equity stake of 20 per cent. [5]

After September 1975 the government also embarked on a policy of direct investment in and management of agricultural and industrial production. This was partly a response to the eagerness of many expatriate plantation owners to divest from Papua New Guinea, and the government saw 'buying back the farm' as an important tool in its program of redistribution of wealth and income (to which it was committed by the emphasis in the constitution's Five Goals on the redistribution of income rather than its growth). Apart from its minority equity in foreign oil palm estates and logging operations, the government acquired 100 per cent ownership of sundry normally private sector activities, such as piggeries, abattoirs, a hotel, a marine amusement park, and scattered rubber and cocoa estates. Clearly none of these amounted to the 'commanding heights' of the economy, and the only programmed interventions were the acquisitions of plantations, most of which would have ceased production without the government assuming ownership.

Development of state enterprise policy 1975–1983

The tendency at independence for the government to contemplate direct ownership and management of industrial and agricultural enterprises was soon moderated (except for mining), and by 1978 the minister for Finance (Julius Chan) had invited the IMF to review Papua New Guinea's non-financial public enterprises (Whitworth 1993, 5). In the following year Chan himself chaired a committee of inquiry whose report, *The Role of Government in Development,* criticized the tendency for the government to assume activities properly pertaining to the private sector (Ministry for Finance 1979).

The IMF's report was written by R. H. Floyd (1979), who noted that apart from the four main utilities, all other non-financial government enterprises had lost money, and that even the utilities were under-performing relative to the opportunity cost of capital (i.e. rates of return in the private sector). Floyd's key argument was that economic efficiency requires that prices paid by consumers for goods and services should cover the full opportunity cost of resources used as inputs, and that if services are proposed to be provided at prices fixed at below cost-recovery levels — as implicitly mandated by the constitution's Five National Goals — the government should provide explicit subsidies to the enterprise through the budget. He also recommended that to avoid hidden subsidies, state enterprises should be subject to the same taxes and duties incurred by the private sector, and that their investments should be determined within the overall framework of the government's capital expenditure budget (Floyd 1979, 24–39; Whitworth 1993, 7–8).

The Floyd Report met with a mixed reception. Only one of its recommendations was adopted immediately (ending of the exemption from company tax of the Harbours Board and Electricity Commission in 1980). Trebilcock (1982) criticized Floyd's proposal to make the government responsible for determining the enterprises' capital spending. It was not until 1983 that the crucial principle of commerciality (cost-based pricing and abolition of tax and import duty exemptions) was adopted for all four of the utilities, namely, Air Niugini, Harbours Board, Elcom, and Post and Telecommunications Corporation (PTC), which were thereafter known as the Commercial Statutory Authorities (CSAs).

The cabinet's decision (National Executive Council 163/1983, 1–5) defining the government's future relations with the CSAs also laid down that they should only undertake new investments if they earned at least the rate of return to be laid down from time to time by the minister for Finance in the annual budget, and that if a CSA wished to undertake a non-commercial investment for 'social/political reasons', it should seek a subsidy through the budget to cover any losses incurred by the investment. The minimum rate of return was announced only once in a budget, and that budget was rejected (in 1985), but the minister for Finance had in 1984 advised each CSA that an 'appropriate' rate of return would be in the range of 16–22 per cent already permitted to the private sector on price-controlled items (Whitworth 1993, 25).

These prescribed rates of return were rarely achieved by any of the CSAs. The average return on investment (ROI) of all four CSAs between 1985 and 1989 varied between a low of 11.1 per cent in 1985 and a high of 13.1 per cent in 1986 (World Bank 1992, 178). Those were the good years: from 1994 onwards Elcom's operating profits were usually less than its interest payments (partly because price controls prevented tariff increases to cover higher costs of imported fuel after the devaluation of the kina in 1994) and its ROI fell below 5 per cent, while the PTC's fell to 4 per cent in 1995, and Air Niugini incurred only losses after 1994 (World Bank 1999, 148–149).

The 1983 NEC decision directed the CSAs to pay dividends to the government from 1984 equal to 50 per cent of the previous year's after-tax profits. Initially this was complied with, at least for as long as the CSAs earned profits, but with adjustments in cases where the CSA obtained cabinet approval for netting off subsidies on unprofitable services it had been obliged to undertake without ever receiving the promised explicit budget subsidy. In this respect, also, the CSAs' performance began promisingly but without achieving the target, with total dividends paid by all four reaching K11.7 million in 1989 (the first year of a recorded subsidy) (World Bank 1992, 178). Thereafter dividend payments to government disappeared along with their profits.

The NEC decision had directed the CSAs to prepare annual rolling forward five-year capital investment programs for approval by cabinet, and this was complied with until they were corporatized in the late 1990s. The decision further stated that legislation would be drafted enabling the CSAs to vary their prices and charges to the level needed to achieve the required rates of return, but subject to the 'price justification' procedures laid down in the *Prices Regulation Act*.

The force of the cabinet's decisions on pricing and investments was considerably weakened by this failure to grasp the nettle of freeing the CSAs from the government's price controls. As the years went by, the CSAs found it more and more difficult to gain timely approval for price increases from the secretary of the Finance or Treasury Department, in his role as price controller, and this largely explains the CSAs' worsening profits performance noted above. But even in the good years their overall gross margin (i.e. total revenue less operating costs as a ratio of total revenue) was less than 20 per cent, whereas the private sector would aim for 40 per cent; and this shortfall reflected operating inefficiencies, inadequate sales relative to their large capital investments, and over-staffing.

Nevertheless there is some evidence of improvement in the productivity of the CSAs between 1984 and 1991. For example, they employed 6,636 persons on gross revenue of K208.7 million in 1984, or K31,449 per employee, and 7,259 persons for revenue of K369 million in 1991, or K48,656 per employee, an improvement of K17,207 (over 50 per cent) in revenue generated per employee. The average in 1991 conceals the dispersion between the capital intensive Air Niugini's K74,082 per employee and the Harbours Board's K34,339 per employee) (World Bank 1992, 178; Whitworth 1993, 1).

The government's rationale for subjecting the CSAs to prices justification was that each was supposedly a monopoly, but that was more by law (telecommunications, power, harbours) than from any evidence of falling marginal costs preventing new entrants to these industries. Even where some degree of competition existed, as on Air Niugini's domestic routes, price controls were enforced on both Air Niugini and its private sector competitors. However there are few if any absolute monopolies — for example, Elcom's declining efficiency led most large buildings and other big power users to install their own generators during the 1990s, an airline monopoly may well have to compete with other forms of transport such as shipping, and privatized harbours (e.g. in Lae and Madang, Rabaul and Kavieng, Alotau and Port Moresby) would have been able to compete with each other for traffic and for new 'foot-loose' industries to locate in their vicinity (see also Department of Finance and Planning 1992, 19).

It is evident that the response of the government in 1983 to the growing difficulties of the CSAs in the 1970s and early 1980s was not to contemplate privatization, which was rarely mentioned as a possibility, except by Trebilcock (1982, 115), but to accept Floyd's restructuring proposals by turning them into quasi-autonomous entities free to behave as if they were private sector firms, subject however to restrictions on price setting and staff emoluments. The implicit contradiction between Floyd's commercialization of the CSAs and their continued public ownership was either not noticed or justified on the grounds that given equal commercial efficiency public monopolies would somehow be more benevolent than private monopolies. Both the CSAs' autonomy and their ability to operate as if they were privately owned began to be eroded in the 1990s, for increasingly their boards and top management became the creatures of the current minister, and if he was removed or transferred to a new ministry, the new incumbent soon acted to replace both board and top management (Millett 1993, 27).

First moves to privatization 1983–1994

After the 1983 NEC decision on CSAs, the government began to turn its attention to its commercial investments. In some cases its hand was forced when many of its wholly-owned commercial enterprises either became defunct or sank into bankruptcy (e.g. Sea Park, the Food and Fish Marketing companies, Energy Development Company, Baiyer River Alcohol, and Kagamuga Natural Products) and were not bailed out. In 1987 the Wingti government initiated privatization of the wholly state-owned National Insurance Corporation (NIC) and a few of its minority shareholdings in joint ventures. The sale of NIC to Malaysian interests in 1988 was aborted at the last minute after a change of government, and no action was taken on the minority shareholdings. NIC remained a public entity until absorbed by PNGBC in 1998.

The first comprehensive privatization policy paper was overseen by a committee of officials chaired by the governor of the central bank but largely drafted by Jakob Weiss, an adviser to the central bank, and presented to the cabinet in 1991, after prompting by the World Bank in the context of its initial Structural Adjustment Programme in Papua New Guinea (World Bank 1992, 52–54; Millett 1993, 12). The Weiss paper stopped short of proposing privatization of either the CSAs or the state-owned commercial bank, PNGBC. It also failed to address the incomplete implementation of the 1983 decision. Instead, its main recommendations were establishment of a unit trust into which the government's shares in mining projects would be placed, and further sales of the state's minority equity holdings in plantations and the like to the national public — which overlooked the pre-emptive rights of the foreign shareholders that managed most of these concerns.

These proposals were superseded when the return to government of Paias Wingti after the elections in 1992 led to a much higher profile for privatization. The government's first act set up the Papua New Guinea Holdings Corporation as a statutory body under the prime minister with capital of K5 million, replacing the previous government's costless Privatization Committee of officials. The corporation became the statutory owner of all the government's non-mining enterprises, with full powers to proceed with privatization and retain all proceeds for its own purposes (Millett 1993, 40).

The Wingti government also moved to raise the state's involvement in the mining industry. The policy from 1980 until 1992 had been for the government to take up to 30 per cent of the shares in mining projects, and 22.5 per cent in oil projects, but in each case only when the projects — including their financing plans — had been approved. This meant that the government avoided the exploration and pre-development risks it had incurred between 1975 and 1980 at Ok Tedi. Payment for its equity in mining was paid up-front *pro rata* with its share of developers' previous exploration and pre-development costs. In the case of oil projects, the developers were obliged to 'carry' (i.e. finance) the state's equity, with recovery of their costs plus interest from the state's forgoing of its 22.5 per cent share of oil production until paid for.

In 1979 the joint venture of three mining companies (Placer Dome of Canada, and MIM and Goldfield Ltd of Australia) formed to develop the Porgera gold deposit had asked the government to determine the size of its equity in advance of the more intensive drilling program they proposed to undertake. The government chose to limit its holding to 10 per cent and signed the 1979 Shareholders Agreement on that basis, despite the precedent of its 20 per cent stake in Bougainville Copper Ltd and its intention to take 20 per cent in Ok Tedi. The large burden on the government's resources of financing its share of the Ok Tedi project explains its decision to limit itself to 10 per cent at Porgera, but the private joint venture partners were evidently keen to be sure of retaining at least 30 per cent each before embarking on a major exploration program.

The new drilling was successful in proving the existence of a larger and richer ore body than had been expected, and in 1985 the managing director of Placer's Australian subsidiary, Robert Needham, wrote to the prime minister seeking confirmation that the government would honour the Shareholders Agreement and limit itself to 10 per cent of the project. Sir Michael Somare replied in the affirmative. Placer Dome floated its Australian subsidiary, Placer Pacific, in 1986, and amidst controversy some of the government's ministers (including the new prime minister, Paias Wingti, and the minister for Finance, Julius Chan) acquired shares at what proved to be a heavily discounted float price, despite the restrictions of the Leadership Code.

By the time the second Wingti government took office in 1992, Porgera had begun production and proved for a few years to be the most profitable gold mine in the world. In September 1992 Wingti secured cabinet approval for removal of Mel Togolo, the chief executive of the Mineral Resources Development Company (MRDC), the government's holding company for its mining equity stakes, and his replacement by Robert Needham, the same Needham who, when managing director of Placer Pacific, had written to the prime minister about the government equity in Porgera the year before its float in 1986. Needham prepared demands presented by the prime minister to Placer and its partners claiming that the government had been 'misled' as to the potential richness of Porgera in 1979 and again in 1985 when it limited itself to only a 10 per cent stake and that therefore the companies should grant the government an extra 20 per cent stake in the mine, at a price based on the original cost rather than the current market value, taking it to 30 per cent. This demand looked to many to be akin to nationalization or even expropriation, but an agreement was eventually reached whereby the companies provided the government with an extra 15 per cent (for a total of 25 per cent), at a price based on market valuations rather than original cost, and payable from the future profits earned by the government's extra holding (World Bank 1993, 91).

The appearance of a new phase of direct state involvement in mining was strengthened when Wingti's and Needham's next move was to demand that Rio Tinto should grant the government an extra 20 per cent equity stake in the new Lihir gold project, taking it to 50 per cent, to be held on behalf of the government by the Malaysian Mining Corporation. Rio Tinto rejected what was seen as a move to replace its management by a team led by Needham — and the government's minister for Mining, John Kaputin, then refused to proceed with Rio Tinto's application for a special mining lease. In mid 1994 a faction of the government led by the then Finance minister, Masket Iangalio, succeeded in having Needham dismissed from MRDC while Kaputin was abroad, and this was soon followed by the resignation of Wingti in August 1994 after loss of a court case on the validity of his purported resignation and re-election by parliament in 1993. The new government quietly dropped the demand for extra equity in the Lihir project, and the project was approved in March 1995. The subsequent international share float of Lihir Gold Ltd provided an opportunity for the government to finance its share of the development costs from the proceeds of selling 40 per cent of its holding in the float — and its residual 17.6 per cent holding was in effect further privatized by assignment of half (6.8 per cent) to a trust on behalf of the Lihirian landowners.

Before Wingti was obliged to resign, his government had set in train what became the notorious purchase of the Cairns Conservatory, concluded in October 1994 under the direction of the next government, by the Public Officers Superannnuation Fund. The Ombudsman's Report (Ombudsman Commission

1999) on this money-laundering transaction provides a graphic account of the departure by ministers (led by Prime Minister Chan himself), and the most senior officials of the Department of Finance, from the high-minded principles that in the early years of independence they had advanced as justifications for public ownership.

Privatization in progress 1995–2005

Wingti's replacement as prime minister by his deputy Sir Julius Chan also led to the immediate departure (after being declared *persona non grata*) of the Holdings Corporation's expatriate managing director (Peter Steele) and to its winding-up before any of its planned privatizations had taken effect, but not before some K2 million of budget funding had been spent on its staff and board. However, independently of the Holdings Corporation, the Finance Department had sold the government's 70 per cent equity in PNG Forest Products (Pty) Ltd. to the 30 per cent shareholder and manager, Prime Group of Singapore.[6]

The Chan government remained interested in privatization, partly due to renewed pressure to that end from the World Bank, to which it had applied for new loans after being forced to devalue and then float the kina in October 1994. Additional impetus came from Chan's deputy and Finance minister, Chris Haiveta, who, however, hoped to avoid conformity with the World Bank's conditions — especially those relating to forestry — for its offered second structural adjustment loan in support of the 1995 budget, by borrowing against the government's share of oil exports from the Kutubu project. This borrowing (as proposed by merchant bankers Paribas Capital Markets and Salomon Brothers) would have involved a forward sale of the state's oil to these bankers at a fixed price of $US15 per barrel, granting them any excess of actual oil prices, with the state's net proceeds (after interest at around 15 per cent) used first to repay the state's liability to its joint venture partners and then to fund the 1995 budget deficit. A team of officials from the Bank of Papua New Guinea and the Department of Finance successfully persuaded the cabinet that this quasi-privatization was potentially very high cost and that a float of part of the state's 100 per cent equity in the Mineral Resources Development Company (MRDC)[7] would be more cost effective (State Negotiating Committee 1995, 3). This cabinet paper marked the first occasion privatization was seen as a means of raising fiscal resources.

Haiveta subsequently took a close personal interest in this proposal for a partial privatization of MRDC by means of an initial public offering (IPO). In August 1995 Haiveta replaced the MRDC board's chosen financial and legal advisers for the float (McIntosh Securities and Mallesons of Sydney) with his own appointees, Jardine Fleming of Hong Kong and Allens Arthur Robinson of Port Moresby, together with their Sydney partner firm (Allen, Allen and

Hemsley, Australia's largest law firm and leading specialist in mergers and acquisitions).

By 1995 the MRDC held on behalf of the government, landowners, and provincial governments, the state's initial equity in the Porgera Joint Venture (PJV) (10 per cent), Misima Mines (20 per cent), Kutubu Joint Venture (KJV) (22.5 per cent) and Lihir Gold (30 per cent). The additional 15 per cent state equity in Porgera that had been forcibly acquired by the Wingti government in 1993 was held separately.

MRDC's new advisers developed concepts whereby MRDC itself would remain wholly owned by the government, and would retain those portions of the state equity in mineral projects that had not been assigned to landowners and provincial governments, while the national government's own residual equity would be placed in a new entity, Orogen Minerals Ltd. Orogen was assured that it would have an option to purchase from MRDC up to 20 per cent of the state's usual 22.5 equity in future oil projects and 25 per cent of its 30 per cent in new mining projects. Orogen's initial holdings included 15.75 per cent in the KJV, 20.5 per cent in the Gobe Joint Venture, 15 per cent in Porgera, 6.81 per cent in Lihir Gold Ltd, and 20 per cent in Placer Dome's Misima Mine. Orogen would be floated both nationally and internationally, with the public able to take up 49.9 per cent, and with MRDC retaining 50.1 per cent on behalf of the government. Orogen was so constituted that MRDC would not have a majority on its board, and that the government's majority would not be voted at general meetings of the company except in regard to its name and place of registration (Port Moresby) (Orogen Minerals Ltd 1996, 23–32).

The float took place in October 1996 and was remarkably successful, with a substantial over-subscription. The total proceeds from the sale of 49.9 per cent of its shares amounted to K304 million (about $A288 million in 1995), of which 13 per cent was subscribed in Papua New Guinea by its institutions and some 6,400 resident individuals. This partial privatization was wholly transparent by virtue of the public flotation process, which included a prospectus containing independent technical experts' and accountants' reports on the various projects, and did not require a World Bank loan or any up-front charge on the national budget. Instead, the float contributed over K100 million to the budget, after clearing MRDC's debts, capitalizing Orogen, and meeting the float managers' fees, totaling some K16 million (see also Dorney 2000, 98–99).

The float also enabled some thousands of Papua New Guineans to subscribe for shares that yielded capital gains to those who sold in good time — its price rose from the discounted float price of K1.75 for Papua New Guineans (overseas investors paid $A2 per share) to over $A2.50 in 1997. Orogen's share price slumped to around $A1.00 during 2000–01, but recovered late in 2001 to $A1.90 when the Papua New Guinea government announced it was contemplating releasing its majority stake of 50.1 per cent, leading to Orogen's merger with Oil Search Ltd. Unlike the rest of Papua New Guinea's public enterprise sector during the 1990s, Orogen yielded dividends both to the government in its role as shareholder and to the public at home and abroad at levels above the average rate on Australian mining shares.

The other notable privatization by the Chan-Haiveta government was its sale of the government's 46 per cent holding in New Britain Palm Oil Ltd (NBPOL) to the Malaysian corporation Kulim in 1996. The British firm Harrison and Crosfield had established this very successful and profitable project near Kimbe in West New Britain in 1968 but had decided to divest its overseas operations in Papua New Guinea and elsewhere. The local management had persuaded Harrison and Crosfield to put its shares into a public international share offering, and the underwriters (McIntosh Securities) valued the firm at not more than K115 million (about $A110 million) of which the government would receive $A50 million for its shares. Chan and Haiveta were persuaded that a trade sale would realize more for the state's shares, and used the negotiating skills of Jakob Weiss, adviser to the Bank of Papua New Guinea, to devise an arrangement whereby the government first exercised its pre-emptive rights to buy out Harrison and Crosfield's 54 per cent at a price which valued the whole of NBPOL at K159 million (i.e. K1.59 million per 1 per cent), with funds provided by the ultimate purchaser, Kulim. The latter then bought the state's now 100 per cent holding (less 10 per cent retained in trust for landowners and the provincial government) at a price valuing NBPOL at K171 million (National Executive Council 1996). The outcome was that the state sold its shares at a price per 1 cent of K1.71 million, considerably more than the K1.15 million per 1 per cent that it was likely to have realized from the McIntosh public float's indicative pricing (where the price was heavily discounted because of the unfamiliarity of the Australian share market with tropical plantation businesses).

The government's net receipt from these transactions was K68.04 million. One of the conditions imposed by the government was that Kulim would in due course arrange a flotation of NBPOL into which it would place part of its holding, and this has since taken place on the Papua New Guinea Stock Exchange (National Executive Council 1996).

Despite these commercial successes, which also provided significant injections of foreign exchange into the reserves of the Bank of Papua New Guinea, the Chan-Haiveta government proved less adventurous in tackling privatization of genuine public enterprises — both Orogen and NBPOL concerned sale of state shares in privately managed concerns. The CSAs were badly affected by the nearly continuous depreciation of the kina after it was floated in 1994, a trend that was exacerbated by the rise and rise of the US dollar and the Japanese yen, the main currencies in which the external debts of the CSAs had been incurred.

Depreciation of the kina did not affect the external value of the debts, but raised the kina value, so at least equivalent increases in the CSAs' tariffs and charges became essential (since unlike Orogen and NBPOL they were not protected by export earnings denominated in dollars).[8] But the price controller when wearing his secretary for Finance hat was under constant pressure from his political masters to moderate the rate of inflation of the Consumer Prices Index (CPI) — and in this conflict of interest the CSAs' requests for approval of electricity tariff increases and the like were usually the losers.

A precondition for privatization would have been substantial liberation of the CSAs from price controls, which was unthinkable (because of ministers' concerns about aggravating the rising CPI) to both the Chan-Haiveta and the Skate governments (in 1998 the latter held out against allowing fare increases on domestic air routes to the point of the near-collapse of the private operators who were crippled by the rise in the kina cost of aviation fuel). Instead, these governments pursued a policy of 'corporatization' of the CSA sector, whereby they ceased to be statutory commercial authorities, each with its own act, but were registered as companies under the *Companies Act*. Ostensibly, this was to be a first step towards privatization, but no moves in that direction were discernible. Rather, the boards and management of the former CSAs used their new exemption from the provisions of the 1983 decision relating to terms and conditions of staffs to improve their personal positions. As companies, the former CSAs were also in effect freed from the 1983 NEC decision's rate of return targets and minimum dividend payments, though as they all declined deeper into bankruptcy this was immaterial.

The government of Bill Skate (1997–1999) followed the Chan-Haiveta government's example of milking the government-managed superannuation funds. The National Provident Fund as a result was by 1999 on the verge of liquidation (World Bank 1999, 187). Potentially even more serious was the spoliation of PNGBC by the Skate government's restructuring, which had the effect of subjecting it to direct government direction. By 1996 PNGBC was already carrying relatively high staff costs, but these increased rapidly in 1997–99, by 31 per cent alone in 1999, and the bank was by then alone among Papua New Guinea's banks with an average staff expense higher than the average operating profit per staff member. PNGBC's efficiency ratio was well over 60 per cent in 1997–99, compared with the common less than 50 per cent of its competitors.[9] By 1999 also, PNGBC was in breach of the central bank's minimum liquid asset ratio (MLAR), and it probably also barely met the Bank of Papua New Guinea's minimum 8 per cent capital adequacy ratio.

Iario Lasaro, the minister for Finance, instead of attending to his prudential supervision of the banking system, found time in his 1999 budget to announce privatization not of the remaining state entities (such as the now corporatized

CSAs and financial institutions), but of large areas of the traditional public sector, such as research institutes and training colleges, using the novel technique of instant cessation of their budget funding (see Curtin 2000a, 3). This 'sink or swim' approach was as short-lived as the government, which fell in July 1999.

The new government of Sir Mekere Morauta (July 1999–July 2002) reverted to the more institutionalized approach of the Wingti government of 1992–94 (of whose PDM party Sir Mekere had become the parliamentary leader). Wingti's Holdings Corporation was revived as the Independent Public Business Corporation (IPBC), complete with board, well paid executives (K450,000 a year for the executive chairman), teams of consultants, and access to a large loan from the World Bank (*Papua New Guinea Post-Courier* 28 February 2001; Weise 2000). In addition, like the Holdings Corporation, the Commission was not obliged to remit net privatization proceeds to the government's consolidated revenue (until its act was proposed to be amended in March 2002, see *The National* 28 March 2002).

But unlike all previous governments' privatization exercises, which had treated the CSAs and state-owned financial institutions as sacrosanct, the Morauta government committed itself to meeting the World Bank's requirement that at least major public enterprises should be 'brought to the point of sale' if not actually sold, during 2000, with PNGBC selected as the most feasible (see Curtin 2000b). This proved to be much easier said than achieved, given the need to bring PNGBC's loans portfolio into reasonable shape after the period of large increases in its unsecured lending during the Skate government. PNGBC had also been placed by the Skate government under the umbrella of a holding corporation, Pacific Finance, as part of an asset stripping exercise, and this also needed to be disentangled (Weise 2000).

The government eventually met the World Bank's extended deadline for bringing PNGBC to the point of sale in mid 2001, and then unexpectedly went one better by announcing on 29 November 2001 that a bidding process had been won by the smaller but nominally privately-owned Bank of South Pacific (BSP). Reportedly (*Papua New Guinea Post-Courier* 30 November 2001), the sale price valued PNGBC at K233 million, but with the government keeping a 25 per cent holding, proceeds would be K175 million, of which K22 million would be retained by the Privatization Commission (later IPBC), and the balance paid into the government's consolidated revenue. The government also indicated that part of its retained 25 per cent would be placed in the proposed Privatization Unit Trust (see below) to which the general public would be invited to subscribe in due course.

The 'trade sale' model adopted for privatization of PNGBC was similar to that employed for the state's shares in New Britain Palm Oil Ltd in 1996, and like that exercise suffered from some lack of transparency, in that the value of other bids was never disclosed. In the case of PNGBC, one of the other bidders was the ANZ Banking Group, already well established in Papua New Guinea. The prime minister's announcement of the sale to BSP said it was the government's 'preferred bidder' (*Papua New Guinea Post-Courier* 30 November 2001), implying that it was not necessarily the highest bid (it later emerged that all the other offers were nominally less than BSP's).[10]

In any event the government evidently preferred a domestic purchaser in which it already had large indirect interests (through the pension funds that have major shareholdings in BSP) to a foreign investor willing to pay in Australian dollars that would have boosted the frail kina's exchange rate. Moreover, it is not clear that the BSP tail now about to wag the PNGBC dog (the latter is much the bigger of the two banks) will indeed have a capital base adequate for the new venture. As of October 2001 the combined capital and reserves of the two banks amounted to 7.2 per cent of their combined but non-risk-weighted total assets. On the face of it, this ratio falls below the Basle Agreement's minimum capital adequacy rule of 8 per cent — but after risk weighting of its assets, the new bank just passed muster (cf. Rose 1999, 488). On the other hand, a take-over of PNGBC by a large if well-capitalized international bank like ANZ might well have reduced competition, with BSP reduced to minnow status by comparison.

Nevertheless, as the enlarged BSP's main shareholders included not only the government (25 per cent) but also government-controlled entities such as the Defence Force Retirement Benefits Fund, the National Provident Fund, the Public Officers Superannnuation Fund, and Motor Vehicles Insurance Ltd, there was some risk that the new bank would prove to be no more than a state-owned bank in disguise. However BSP's own track record has been one of independence from government interference despite its publicly-owned institutional shareholders, especially since it has listed its shares on the Port Moresby Stock Exchange, enabling the general public to subscribe and share in its outstanding profits performance since 2002, and it has become by far the biggest bank in Papua New Guinea, with well over 50 per cent of total deposits of the banking system.

The Morauta government's intention to set up a 'Peoples' Unit Trust' harked back to the Weiss proposal in 1991 and was just another version of the failed Investment Corporation of Papua New Guinea (ICPNG, which manages a form of unit trust holding shares mostly in unlisted domestic companies) unless it is itself privatized; some of the latter's assets disappeared during the Skate government's tenure, with its headquarters building being sold cheaply to its chief executive, and it has paid no dividends since 1997 (*Papua New Guinea Post-Courier* 29 October 2001, 10 August 2005). Unit Trusts in other countries typically invest in a broad range of equities at home and abroad. A Papua New Guinea Peoples' Trust, restricted perforce to holdings in at most one or two unlisted privatized companies could not offer local investors sufficient diversification to attract their support, as shown by the nil new investment in ICPNG since 1997.

The Somare government since 2002, like its predecessors, has been unduly concerned with the risks, first, that privatized 'natural' monopolies like Elcom and Telikom would be able to use their monopoly power to force up their prices or tariffs and earn 'excessive' profits, and, secondly, that when privatized the CSAs would fail to meet the so-called community service obligations that are ostensibly required of them by the constitution.

Successive governments have no doubt considered that if they addressed these issues it would at least in part head off the opposition to privatization by the unions, some students, and other members of the public. But that opposition will not be so easily fobbed off, and it is likely that the price controls still in place for future owners of Elcom (now PNG Power Ltd) and Telikom PNG will make it more difficult to complete the privatizations. Those putative owners will want to earn profits, the bigger the better from their point of view — and for the government and people of Papua New Guinea. Larger profits would deliver larger tax revenues, which the government could use to meet non-commercial community service obligations, in the form of subsidized power and communications. Moreover larger profits would in time attract new entrants to the industries in question, and end their so-called natural monopolies.

In that regard it should be noted that in reality there has been no evidence of the defining condition of falling marginal costs, not surprising given the small scale of the domestic market for power and telecommunications. These monopolies have always been protected in Papua New Guinea by legislation preventing new entrants (as, for example, in the cases of PNG Power and Telikom PNG, despite the nominal 'sunset clauses' opening access to them). In the event, the Somare government (2002–7) reneged on the Morauta government's almost completed sale of Telikom PNG to Fiji's privatized telecommunications corporation, and later refused to accept the larger offer by the African firm Econet (founded by a Zimbabwean but independent of the Mugabe regime in Zimbabwe). Evidently, like almost all previous governments, that of Sir Michael Somare was unwilling to forgo the ability to use state-owned enterprises as a means of rewarding its key supporters with directorships and executive posts even if this meant abysmal service standards. Far from Telikom PNG delivering the 'service obligations' that allegedly private sector management could not be trusted to fulfil, it has over thirty years increased the number of fixed lines only to 60,000, for a population of over 5.5 million, compared with Fiji's 100,000 for its population of only 800,000, while Fiji services more than double Telikom PNG's 50,000 mobile telephones. However, Telikom PNG eventually (2008) relinquished its monopoly control of the country's mobile and internet networks, which had resulted in one of the slowest and most costly services in the world (8 Mbps and K1.80 or $US0.60 per minute), according to a government minister (Sir Peter Barter, *Papua New Guinea Post-Courier* 17 May 2005).

Finally, the story of government equity in Papua New Guinea's mining and petroleum sector, that had begun with such acrimony when local communities in Bougainville objected to the start-up of the Panguna copper mine in 1970–72 and were not appeased when the government was offered equity of 20 per cent (see Denoon 2000), ended in April 2002 with the take-over of the government's 51 per cent owned Orogen Minerals by Oil Search Ltd. Apart from an enlarged — and *de jure* controlling — stake in Ok Tedi since 2002, and a minority (18 per cent) holding in Oil Search, the government's involvement in the mineral sector has ended, except for MRDC's role in administering the equity stakes of landowners and provincial governments in the Porgera, Lihir and Kutubu projects. The merger resulted in the government's receiving $A0.45 per share by way of return of capital from Orogen (i.e. $A73.7 million) plus 1.2 shares in Oil Search for each of its shares in Orogen, an implied price of $A1.97 per share, above Orogen's list price in Australia in 1996 of $A1.75 and well above its price of $A1.00 in October 2001 before the government disclosed it was reviewing its holding in Orogen. Time will tell whether the short-term gain offsets the government's abdication from the strategic role in the industry that it sought in the period from 1975 to 1995, but the cash benefits of that role were far from impressive, and disengagement relieves the government of the conflicts of interest that created so many difficulties at Panguna and Ok Tedi.

There remained a final twist in the story of government involvement at Ok Tedi. In 2001 BHP-Billiton decided to divest itself of its 52 per cent controlling interest in OTML in favour of a special purpose new entity, the PNG Sustainable Development Program Ltd (SDPL) in order to reduce its exposure to its environmentalist critics in Australia (the other shareholders are the national and provincial governments and landowners, and Inmet of Canada). The SDPL has no shareholders as a company limited by guarantee, but is nominally subject to control by its seven directors (namely Ross Garnaut, Jim Carlton, Don Manoe, Patricia Caswell, Jakob Weiss, Sir Ebia Olewale, and Lim How Teck) of whom three each were appointed by BHP Billiton and the government of Papua New Guinea and the last by the Board itself.[11] Thus SDPL could be seen as in part a *de facto* nationalization of the formerly private sector controlling ownership of OTML that had been exercised by BHP Billiton. SDPL is managed by its directors (of whom the chairman is Dr Ross Garnaut, who had been instrumental in bringing BHP into Ok Tedi on behalf of the Papua New Guinea government in 1975 — see Garnaut 2000) in accordance with the agreements by which it is charged with promoting sustainable development and the general welfare of the people of Papua New Guinea. SDPL derives most of its income from its 52 per cent share of dividends paid by its subsidiary, OTML, and its net income is placed in its long term and development funds, amounting to $US79.4 million and $US38 million respectively at the end of 2004. These funds have mostly been placed in offshore accounts earning less than 2 per cent in interest and other income in 2004. Time will tell whether the SDPL makes a genuine contribution to the development of Papua New Guinea relative to what might have been accomplished if OTML had itself assumed the BHP stake and become an independent Papua New Guinea mining company free to invest in probably more productive activities than those so far adopted by SDPL.[12]

Conclusion

One of the enduring strengths of Papua New Guinea is the pragmatism of both people and politicians, unfettered as they are by the fashions in ideologies that momentarily hold sway in other countries. Thus, just as in practice, despite the constitution, no governments have had overt ambitions for outright nationalization of the whole of the enterprise economy, tilts towards privatization have only been effective when the public sector has demonstrably failed to deliver, as has increasingly been the case since 1994. Even then, with the private sector's performance in Papua New Guinea less than stellar, having provided no net increase in the employment it offers since 1988 (Bank of Papua New Guinea 2003), it has hardly been a role model. Moreover external observers of the failures of Papua New Guinea's public sector need to remember the much more spectacular debacles engineered by private entrepreneurs in Australia (Bond Corporation in 1988, and in 2001 alone, HIH, OneTel, and Ansett) and most recently in the USA (Waste Management, Sunbeam, and Enron, the last a one-time major shareholder in Papua New Guinea's upcoming oil refinery). Enron's debts of K300 billion were 66 times larger than Papua New Guinea's total external debt in 2001. The World Bank's (1999) extolling of the benefits of privatization in terms of accountability and transparency also ring hollow when the world's fifth largest accountancy firm, Arthur Andersen, was directly involved in the frauds surrounding the bankruptcies of Bond, HIH, Waste Management, Sunbeam, and Enron (*The Australian* 17 January 2002). Even so, those bankruptcies demonstrate the condign punishment by the market of fraud and mismanagement, and in the last analysis it was only the protection of the explicit guarantees by government that protected Papua New Guinea's public enterprise sector from the same fate (including PNGBC and National Provident Fund in 1999).

Against that background one needs to preserve a degree of caution in recommending any particular ideology-based set of policies for or against public enterprise, and to revert to Jeremy Bentham's utilitarian calculus: what are the relative costs and benefits of alternative forms of enterprise management on a case by case basis? The promising performance of the CSAs in the later 1980s when their managements were not subject to political appointment is enough to suggest that under the right conditions, including, crucially, freedom from price controls and an appropriate non-government regulatory body, they might have been able to survive as public enterprises.

All the same, the Morauta government deserves considerable credit for being the first to follow through with implementation of its predecessors' supposed commitment to privatization of Papua New Guinea's state enterprise sector. Air Niugini, Telikom and Elcom were put on the market; PNGBC and Orogen Minerals had both been sold by April 2002. Prime Minister Morauta's own lead was impressive, given the context of two army mutinies (2001 and 2002) and student protests (June–July 2001). The Somare government also deserves credit for at least not reversing these privatizations since 2002, despite its electoral rhetoric, and in particular for preserving the independence from political direction of the Bank of Papua New Guinea that was Morauta's most signal achievement.

The main caveats emerging from the narrative in this chapter are, first, that while some trade sales may yield higher returns than floats, as with NBPOL but not perhaps PNGBC, the gains of floats, in terms of transparency and opening up to ownership by the public, are potentially very large, as demonstrated by the Orogen Minerals float in 1996. Secondly, whatever holding or privatization corporations and trusts are in place to manage the privatization process, success will finally depend on the kind of commitment to privatization of the managements of the individual enterprises that was evident at MRDC in 1996 and in PNGBC in 2001, but has yet to be seen anywhere else in Papua New Guinea's public enterprise sector (apart from the largely autonomous Bank of Papua New Guinea established by the new *Central Banking Act* 2000).

Finally, we have seen how small Papua New Guinea's public sector was in 1975, in both its administration and enterprise components; how the latter grew rapidly in the 1970s; and how the sale of PNGBC in 2001 was the first privatization of a wholly-owned public enterprise. The non-enterprise public sector by contrast has not grown at all, apart from education, despite enduring complaints, from the World Bank (in every one of its country reports since 1988) and other aid agencies, that the country suffers from an overblown and burgeoning public service. As demonstrated by Curtin (2000b), Papua New Guinea's public expenditure expressed as a ratio to its GDP at around 26 per cent is well below the norm in developed countries, and has consistently declined both in real financial terms per head of the population and, more pertinently, in numbers of public servants per head of the population (with, for example, not merely no increases in the ratios for police and defence but actual declines since 1975). This negative growth is perhaps a function of the very slow growth of per capita GDP since independence, and also of the failure of all Papua New Guinea's governments to address effectively the issue of reform of land tenure first proposed by the Faber Report (Overseas Development Group 1973, see also

Curtin 2003). Until conditions are created that enable both the public and the private sectors to grow, Papua New Guinea itself will not fulfil the ideals laid down in its constitution.

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Endnotes

[1] The author acknowledges the useful comments of Ronald Duncan, Chris Elstoft, Alan Robson, Anthony Siaguru, and Charles Yala, but remains responsible for any remaining errors and omissions.

[2] The subsequent expansion of copper output in Zambia without regard to profitability led ultimately to the government receiving far fewer social benefits, in the form of taxation, than it had received before nationalization. The instigator of that nationalization (Michael Faber) later led a team on behalf of the

World Bank to advise the chief minister of the soon-to-be independent government of Papua New Guinea on development priorities; the report recommended renegotiation of the Bougainville Agreement (Overseas Development Group 1973, 69,101), in addition to much increased involvement of the government in production and marketing activities.

[3] The consequence of falling marginal costs is that the competitive profit maximizing pricing rule of price equated to marginal cost necessarily creates losses that only a monopolist can avoid through its ability to maintain prices above marginal cost.

[4] The constitution's preamble provides for citizens and government bodies to have control of the bulk of economic enterprise and production, foreign investment, and major enterprises engaged in the exploitation of natural resources (see Chand and Yala, this volume).

[5] The government later raised its holding to 30 per cent when one of the private shareholders (Amoco) divested itself; in 1990 it offered 10 per cent equity in the mine to landowners and the provincial government; in 2001 BHP placed its 52 per cent in a trust company to create a fund to benefit the people of Western Province after mine closure. As of 2005 the mine is operated by Ok Tedi Mining Ltd on behalf of the remaining shareholders, namely the so-called PNG Sustainable Development Program Ltd that inherited BHP-Billiton's 52 per cent stake, the provincial government and the landowners (20 per cent), and one remaining external investor (Inmet of Canada, with 18 per cent).

[6] The Department also successfully negotiated sale of the state's shares in various other concerns, e.g. PNG Marine Products (1992), and the three Pacific Rim oil palm plantations in Oro, Milne Bay, and New Ireland to the respective non-government shareholders (1998).

[7] MRDC was the new name, after 1986, of the former Ok Tedi Development Company.

[8] For example, Elcom's debt had reached K400 million by 2001 (*Papua New Guinea Post-Courier* 8 October 2001).

[9] The efficiency ratio is the non-interest operating expense as a percentage of net operating income.

[10] In October 2001 ANZ paid $A100 million (about K200 million) for the operations of the Bank of Hawaii in Papua New Guinea (two branches), Vanuatu (two branches), and Fiji (three branches) — far fewer than PNGBC's more than thirty (*Papua New Guinea Post-Courier* 5 October 2001).

[11] Dr Jakob Weiss is the nominee of the Bank of Papua New Guinea.

[12] SDPL's biggest investments so far are in subsidiaries promoting 'sustainable energy' and 'micro-finance', neither of which has generated (nor is likely to generate) any returns. Ironically the rate of return on its offshore funds is well below the target rate for the CSAs described above.